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IN

Questions & Answers

By

PROF. MALHOTRA

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CONTENTS

"India which during 1850—1950 was a stagnant under-developed country became after 1950 a developing under-developed country".

—*Malhotra*

1

THE NATURE OF INDIAN ECONOMY

Q. 1. What is an under-developed economy? How far is it orrect to describe Indian economy as an under-developed economy?

(*Pb. M.A. 1979, 1972; Pbi. 1970; Rajasthan 1973; Jammu 1980, 1977; M.D.U. 1981; Allahabad 1976; C.A. May 1970*)

Or

What are the chief characteristics of economic backwardness? Illustrate with reference to India. (*Jiwaji 1978; Tirupati 1978*)

Or

What is meant by an under-developed economy? Is India under-developed? Give reasons for your answer.

(*G N.D.U. B.A. Hons 1982; Pb. M.A. 1976; Vikram M.A. 1976*)

Or

Indicate the features of Indian economy which you associate with under-development?

(*G.N.D.U. 1980; Pbi. 1977; Delhi M.A. 1978; Cal. 1978; Bombay 1979; Pbi. B.Com. 1978; Kurukshetra B.Com. 1982; Pb. B. Com. 1982.*)

Or

What are under-developed countries? Point out their salient characteristics with special reference to India. (*Agra 1980, H.P. 1981*)

Ans. Meaning of an Under-developed Economy. To give a precise definition of an under-developed economy is rather an uphill task. Different economists have given different definitions to explain the meaning of an under-developed economy.

In the words of **Dr. Oskar Lange**, "An under-developed economy is one in which the available stock of capital goods is not sufficient to employ the total available labour force on the basis of modern technique of production."

Prof. Ragner Nurkse defines under-developed countries as those which 'compared with the advanced countries are under-equipped with

capital in relations to the population and natural resources.' But these definitions are not satisfactory since they refer to the capital deficiency alone and neglect other socio-economic factors. As Nurkse points out, "Economic develoment has much to do with human endowments, social attitudes, political conditions, historical accidents, and so on."

According to **Eugene Staley**, an under-developed economy is one which is "characterised by mass poverty which is chronic and not the result of some temporary misfortune and by obsolete methods of production and social organisation, which means that the poverty is not entirely due to poor natural resources and hence could presumably be lessened by methods already proved in other countries." In this definition, significance of population has not been mentioned clearly and moreover it does not lay emphasis on low per capita income.

According to **Indian Planning Commission**, an under-developed country is one "which is characterised by the co-existence, in greater or lesser degree of unutilized or under-utilized man-power on the one hand and of unexploited natural resources on the other. The state of affairs may be due to stagnancy of techinques or to certain inhibiting socio-economic factors" This definition no doubt points towards some of the basic characteristics of under-developed countries but it too neglects the basic criterion of under-development *i.e.*, low per capita income. No doubt existence of idle resources is an important characteristic of an under-developed economy. But if resources are temporarily idle owing to depression, it does not necessarily indiate an under-developed economy.

According to **Colin Clark**, under-developed economies are such in which primary occupations like agriculture predominate and tertiary occupations are yet in an under-developed state. This definition is also defective since a big proportion of domestic servants (a tertiary occupation) does not put an economy into a devoloped category.

As a matter of fact it is difficult to find out a single definition which is so comprehensive as to include all the features of an under-developed country.

However, one universally accepted criteria of under-development is the low per [illegible]
with the ad[illegible]
whose per [illegible]
under-deve[illegible]
developed *nation is simply one with real per capita income low relative* [illegible]

be regarded satisfactory since it emphasises only one aspect of under-[illegible] *viz.* poverty, while it neglects the other important aspects of [illegible]elopment. Thus per capita income estimates alone cannot d[illegible]eloped economy.

However, the best and the most commonly accepted definition of an under-developed economy is given by Prof. Jacob Viner. According to him an under-developed country is one "which has good potential prospects for using more labour or more capital or more available natural resources or all of those, to support its present population on a high level of living or if its per capita income level is already fairly high to support a larger population on not a lower level of living." This definition lays emphasis on two most important aspects of development *viz. per capita real income* and *development potential* and as such it is regarded as the best definition.

Prof. Viner's definition attaches less importance to substitution of natural resources by capital. Natural resources, no doubt, have their own role to play in a national economy. But there are instances of Japan, Switzerland or Holland which possess few natural resources of some importance and where the availability of high per capita capital supply has made higher levels of income possible. Again, the significance of the degree of interest of the people in economic development has not been mentioned. In fact, a people's interest is the source of supply for the entrepreneurial factor, more so in an economy where illiteracy and lack of technical know-how is a serious obstacle to economic growth." "Popolur enthusiasm is both the lubricating oil of planning, and the petrol of economic development, a dynamic force that almost makes all things possible—even the most backward country will progress rapidly if its government knows how to tap this dynamic force." Alfred Bonne rightly remarks, "Although this latter item (people's interest) is in part a non-economic aspect, it is of out-standing significance to the process of economic development ; the degree of its presence vitally affects the degree and prospects of development ; and we should include it in our definition of an under-developed area."

We may define an under-developed economy as an economy which possesses good potential prospects and an enthusiasm in its people for using more capital or more labour or more available and potential natural resources or all of them combined to support its present population on a higher standard of living or, if its population is increasing, to raise its standard of living faster than the rate of growth of its population. This definition has a universal applicability *i.e.*, it is applicable to under-developed economy—may it be an over-populated or under-populated one, may it be an agricultural or industrial one ; may it be endowed with abundance or scarcity of capital. It puts emphasis on per capita income and the development potential and the people's interest in the development, the three crucial determinants of economic development.

Characteristics of an Under-developed Economy

It is clear that no single definition of under-development can be regarded as wholly satisfactory. The best thing is to spell out the various characteristics of an under-developed economy to convey clearly what under-development means. That Indian economy is

under-developed, is shown by the fact that it has several features which are usually associated with under-development. In this connection we may point out the following chief characteristics of the Indian economy on account of which it is labelled as an under-developed economy.

(1) **Mass Poverty or Low Per Capita Income.** Under-developed economies are marked by the existence of mass poverty as reflected in low per capita income and hence in low standards of living of the people Prof. A.K. Cairncross is right in saying that the under-developed economies are the "*slums of the world economy*." The per capita product of U.S.A. is roughly 31 times more than that of India. U.K. has a per capita product which is about 14 times more than India's per capita product. Australia, New Zealand and Canada have even till higher national product. Excepting Nepal, Burma, China, Bangla desh, and Pakistan, India has perhaps the lowest per capita product in the whole of the world. It is just $\frac{1}{8}$ of the per capita income in Israel, $\frac{1}{4}$ that of Malaysia, $\frac{1}{3}$ that of Japan and nearly $\frac{1}{2}$ that of Sri Lanka. If a family is taken to be consisting of five persons, monthly income of an average family in the U S.A. is $ 1046. Monthly income of an average family the U.K. is $ 525 The U S S.R. should be somewhere in between these two. Average per family income in India is about $ 32·5 per month. In such economies food is the major item of consumption and about 70% of the income is spent on it as compared with 20% in developed economies. Again in food expenditure, cereals may form nearly 80% of the total food expenditure. As a result, the average caloric intake hardly exceeds 1900 as compared with more than 3000 to be found in the diet of the people of advanced countries.

Per capita consumption of cotton in U.S.A. is 24 lbs. per year, while it is only 5·3 lbs in India. It is estimated that rich economies provide the people with 3—8 times more clothing of all types as compared to the poor countries. It is estimated that in U.K., U.S.A., Denmark, France and other developed economies, over $\frac{4}{5}$ of houses. erson is able to get ouses are provided and baths. On the other hand in under-developed countries, more than 2 people live in a room. In India nearly 700 million people live in about 75 million houses. On an average more than 9 persons live in one house in India. The question of filtered water supply, gas and electricity is a far cry, even the most basic amenities such as latrine and bath-rooms are non-existent in most of the rural houses or a large number of houses in cities in India.

Poverty is thus the basic malady of an under-developed economy which is involved in 'misery-go-round'. Poverty cripples production.

(2) **Primary Producing Economy.** One of the important basic cha istics of an under-developed economy is that it is primary prod e term 'primary producing' here signifies that raw-materials

and food production dominate the structure of production. A very high proportion of working population is engaged in agriculture and that agriculture contributes a very large share in the national income. In Asia, Africa and Middle East countries, from $\frac{2}{3}$ to more than $\frac{4}{5}$ of the population earn their livelihood from agriculture, and in most Latin American countries from $\frac{2}{5}$ to $\frac{3}{4}$ of the population are dependent on agriculture.

Some under-developed countries are also highly dependent on non-agricultural primary production *i.e.*, minerals. Under-developed countries account for a very high proportion of the world's production of [illegible] manganese, diamonds, chromium [illegible] mineral output lie in industrial [illegible] degree of industrialisation, only [illegible] food-stuffs, being used domestically. Most of these economies concentrate on only two or three commodities for example, in Ceylon, tea, rubber and coconut products; in Indonesia rubber, tin and oil; in Malaysia, rubber, tin and palm oil; in Bangla Desh jute and cotton. In a few extreme cases of monoculture, the production of a single product may exist. Although there is generally some industry, this consists mainly of the processing of agricultural products, the production of agricultural implements, or the simple manufacture of textiles, and light industries of minor importance. Traditional handicraft industries account for most of the manufacturing employment.

(3) **A Dualistic or Triplistic Economy.** Nearly all the under-developed economies are dualistic in nature—co-existence of market sector and subsistance sector: of urban sector and rural sector: of developed sector and under-developed sector. Urban sector or market sector is ultra-modern with all the amenities of life *viz.* the cars, the trains, the buses, the scooters, the cinemas, the telephones, the parks, the magnificent buildings, the schools and the colleges. In this sector government offices the business houses; the banks, the insurance companies and a few industrial concerns are visible. But the subsistance sector is backward and a primarily agriculture-oriented. In good many under-developed economies there are foreign controlled concerns thus making these economies triplistic in nature. These concerns are highly capitalistic and are seen in mining, plantations and petroleum refineries. For instance, petroleum extraction in the Middle East; Venzuela and Libya: mining for copper in Central Africa, tin in Bolivia and gold in South Africa; plantation cultivation of rubber trees in Malaysia and tea in Sri Lanka.

This dualistic or triplistic nature of the backward economy is thus not conducive to its healthy growth. Disparity in the development of various sectors of the backward economy is not conducive to healthy economic growth in poor economies. The undeveloped sector (subsistance sector) acts as a brake on the expansion of the developed (secondary or tertiary) sector. The growth of the secondary [illegible] is inhabited to a large extent. The less developed sector [illegible]

sistance sector practises primitive technique of production, obstructs factor mobility and the people engaged in it produce less per capita income than those operating in the developed sectors. The former keeps off the market a large proportion of a country's potential buyers of consumer goods produced by industries. The demand of the subsistance sector is less in quantity and poor in variety. It fails to create an effective demand for industrial goods.

(4) **Under developed Natural Resources.** An important feature of an under-developed economy is the existence of amount of unutilised under-utilised and mis-utilised natural resources.

Generally speaking, under-developed countries are not deficient in land, water, minerals, forest or power resources, though they may be untapped. For example, India still has about 90 million acres of "cultivable waste land." The waste land in Burma that can be converted to farm land is estimated at 19 million acres almost as much as the present tilled area Irrigation could increase the arable land in Iraq from 6 million acres to 20 million ; in Syria from 4 million to 10 million acres, and Turkey could enlarge its crop area from ·25 to 40 million acres. Africa has considerable reserves of copper, bauxite, gold and tin Asia is rich in petroleum, iron, bauxite and tin. Latin America has attracted considerable foreign capital in recent years to exploit its petroleum, iron, copper and zinc. Even though the poor countries are generally deficient in coal reserves, many might utilise oil and gas as major source of energy. Furthermore, the unused resources of water power are heavily concentrated in poor area. The rate of utilisation of available water power is 60% in Europe, but only 3% in South Amarica, 5% in Middle America, 13% in Asia and little more than 0 1% in Africa. Africa possesses 44% of the world's hydro-power potential but utilises only 0·1% of it. It is clear that 90% of the water power potential of the poor countries has remained under-developed for one reason or the other. The forests resources of Africa, Asia and Latin America are well-known which are yet to be exploited and penetrated Foreign capital and enterprises got an upper hand due to its political supremacy and resourcefulness. They were more interested in felling valuable trees and transporting them either to their home country or other colonies. Consequently the forest potential of these areas has been misutilised. The main problem in their case is that such resources have not been fully and properly utilised due to various difficulties such as their inacessibility, shortage of capital, primitive technique, and small extent of the market.

(5) **Deficiency of Capital.** The deficiency of capital is so characteristic a feature in all under-developed economies that they are often called simple "capital-poor" economies. One indication of the capital deficiency is the low amount of capital per head of population and the fact that even this small amount of capital is not diversified in type. It has been estimated that in 1980 real per capital per worker in

Asia and the Far East was only 10% of the U.S.A. and in Africa was less than 2% of the U.S.A.

Not only is the capital stock extremely small, but the current rate of capital formation is also very low. The rate of capital formation in the advanced countries is substantially higher when compared to that of under-developed countries. In most under-developed countries investment is only 5% to 8% of the national income whereas in U.S.A., Canada and Western Europe it is generally from 15% to 18%. The low level of capital formation in an under-developed economy is due both to the weakness of the inducement to invest and to low propensity and capacity to save. In such an economy, the low level of per capita income limits the size of the market demand for manufacturing output which weakens the inducement to invest. The low level of investment also arises as a result of the lack of dynamic entreprenuership. At the root of capital deficiency is the shortage of savings. The average rate of savings comes to about 5% in the under-developed countries. In the opinion of the U. N. Expert Committee the rate of saving was 5% of national income in India, Pakistan and Sri Lanka and about 3% in Burma, Indonesia, Philippines and Thailand.

The level of per capita income being quite low most of it is spent in satisfying the bare necessities of life, leaving a very low margin of income for capital formation. Even with an increase in the level of individual income in poor countries, there does not usually follow a higher rate of capital accumulation, because of the tendency to emulate the higher levels of consumption prevailing *in the developed countries*. Ragner Nurkse has called this tendency '*demonstration effect*'.

Generally, there exists a marked inequality in the income distribution in poor countries. This should have resulted in a greater volume of savings available for capital formation. But must often the sector in which the greatest concentration of income lies is the one which derives its income primarily from non-entrepreneurial sources : such as unearned rent and interest. The attitudes and social values of the sector are often such that it is prone to use its income for *conspicuous consumption* ; investment in land and real estates, speculative transactions, inventory accumulation and hoarding of gold and jewellery. Deficiency of capital is both a cause and an effect of low productivity in under-developed countries. It is a connecting link between low level of production and economic poverty. Low productivity levels cause shortage of capital which in its turn acts as a brake on increase in production. One reacts on the other and creates a vicious circle of poverty.

(6) **Lack of Dynamic Entrepreneurship.** *Another characteristic of* an under-developed economy is the absence of dynamic entrepreneurship. The absence of modern enterprise and initiative in under-developed countries is due to the absence of a favourable economic and socio-cultural climate. In these economies the value system [illegible] importance of economic incentives, material rewards, independent rational calculation. The social system of such economies [illegible]

entrepreneurship. The force of custom, the rigidity of status and the distrust of new ideas are enemies of the exercise of intellectual curiosity and combine to create an atmosphere inimical of experiment and innovation. In many of these economies, there is little motivation to produce wealth since the social prestige the people desire may be more easily acquired in other non-economic ways and the production of wealth may actually be held in contempt. If technical and business activity are not valued, entrepreneurs will be few in number. Entreprenuership is especially handicapped where the society is stratified by caste, colour or creed and where custom or law restricts the activities of large sections of the population. Nor can entrepreneurial activity flourish if markets are narrow and knowledge is limited. In these ecc [illegible] the obstacles to [illegible] as [illegible] recognise market opportunities and make effective decisions to exploit these opportunities. Instead of having a large class that is interested in the long-term productive achievements, the poor countries have only a small class of businessmen and these are typically merchants and traders who confine their activities to distribution ; real estate, speculation and money lending.

(7) **Low Level of Technology.** Technological backwardness is another feature of under-developed economies. There is no doubt that one can find in an under-developed economy like India the most modern technique accompanied by the most primitive in the same industry but there is no gain saying the fact that the majority of the productive units and major part of output is produced with the help of technique which can be described as inferior judged by modern scientific standards. On account of absence of development, under-developed countries continue [illegible] out of date methods of production which have fc [illegible] advanced countries of Europe and Ame [illegible] ard technique is one of the paramount causes of low productivity in under-developed regions. Thus technological backwardness is regarded as an important factor responsible for under-development. In agriculture and other industries there is backward technology. It is pointed out that backward state of technology is clearly seen in the high cost of production and also in the high rates of labour or low rates of capital output. Besides as a result of technological backwardness, there is generally low productivity of capital as well as of labour. There is again abundance of unskilled labour. Deficiency of capital hinders the process of scrapping off the old techniques and the installation of the modern techniques. Illiteracy and absence of a skilled labour force are the other major hurdles in the spread of technique in the backward economy. Thus it may be pointed out that technological backwardness is not only the cause of economic backwardness, but it is also the result of it.

(8) **Population Pressures.** The diversity among under-developed economies is perhaps nowhere to be seen so much in evidence as in

respect of the facts of' their population in respect of its size, density and growth. While we have examples of India and China with their teeming millions and galloping rates of growth, there are the Latin American countries which are very sparsely populated and whose total population in some case numbers less than the single metropolitan cities in India and China. In several newly emerging countries of Africa too and in some of the Middle Eastern countries the size of their population cannot be regarded as excessive considering their large expension. The South-East and Eastern Asia, on the other hand, have swarming population. [illegible] *namely a rapid rate o* [illegible] still more in recent year [illegible] which have greatly reduced the mortality due to the epidemics and diseases while death has thus fallen phenomenally, birth rate does not yet show any significant decline, so that the natural survival rate has become much larger. In countries like India, Pakistan and Burma a veritable population explosion is feared. Even though all poor countries do not now confront Malthusian problem, nonetheless many certainly do and many other will face the problem in the future if present trends continue. Most of the poor economies—ECAPE Region. South West Asia, Latin America and Occania indicate a high potential growth. 'In Latin America, although population is still sparse, rate of growth is among the highest in the world and at this rate its population is likely to doubte itself every 40 years Southern Rhodesia will double its population in 20 years. On the basis of demographic trends which prevail in 38 poor countries in 2 decades. Davis concluded that if present rates of growth persist, population will double itself in 40 years in more than half of 38 poor countries and total population of all 38 poor countries will take less than 50 years in doubling itself.

[illegible] nt trend consists in this that it [illegible] nt in as much as the increased [illegible] population.

(9) Unemployment, Under-employment or Disguised Unemployment. "Disguised unemployment or under employment is not the common characteristic of all the under-developed countries. There are sparsely populated countries and regions in Latin America and Africa which are under-developed but do not have to face the problems of over-population or unemployment."[1] Chronic and large scale under employment in agriculture is, however, a characteristic feature only of the densely populated countries in the area ranging from South-Eastern Europe to South Eastern Asia.

Since population grows rapidly, labour is an abundant factor and it is not possible to provide employment to all the people who are capable to work and willing to work. Consequently unemployment and under-employment is very common. In the agricultural sector of the economy disguished unemployment exists to a considerable degree. In agriculture

1 Bauer and Yamey: The Economies of Under-developed Countries, p. 75.

more people are engaged than are actually required there. Excessive employment of labour leads to a sharp fall in its marginal productivity. But because of the lack of any alternative employment, people continue [illegible]

drawn from there. Thus they are the people who are technically called as disguisedly unemployed. All these people share the nation's income, without making any contribution to its production (since they are only superficially employed, their marginal productivity being zero). Thus they are a drain upon country's resources and a hindrance in the way of its development. "Unemployment and under-employment in India may actually waste as many gross man-years of labour as is contributed by the labour force in the United States."

(10) **Predominance of Rural Sector.** If under-employment is the main feature of the rural sector in under-developed economies, the latter's predominance is the most common characteristic of under-development. The economic structure of a country and its development are closely affected by the way the population is distributed over towns and villages. The present excessively uneven distribution between city and country with only a negligible proportion of the people living in cities is an index of the economic backwardness of the poor count [illegible] loss of pow [illegible] remarked [illegible] from whic [illegible] has seldom played the role for progressive development. *People* [illegible], conservative and impervious [illegible] civilization.

(11) **Foreign Trade Orientation.** An under-developed economy is generally foreign trade-oriented. Traditionally, under-developed economies have exported raw-materials and imported consumer good and machinery. T[illegible] to total output is normally high. [illegible] Lanka, Malaysia, Burma, and [illegible] economies. In some countries like Chile, Egypt and Cuba, he export of only one or two stayle commodities accounts for a major part of their foreign-exchange earnings. The production system of these economies is geared to the requirements of the export sector. The export sector generates a large share of national income than domestic investment or public expenditure. In all under-developed economies as whole, the ratio of export to the national income appears to be not much less than 20%. The dependence of poor countries on exports becomes more poignant in its effects when the case of those economies is viewed which export only of one or two staple commodities. Iran earns 90% of her foreign exchange by exporting oil. Saudi Arabia and Kuwait depend practically to the same extent on oil exports for their foreign exchange earnings. In Egypt cotton contributes almost 90% of her exchange receipts; 62% exports

of Indonesia consist of rubber and oil. Malaysia earns 75% of her foreign exchange by shipping out rubber and tin. Sri Lanka depends on exports of tea and rubber for earning 73% of her foreign exchange. The dependence of African region on export of staple commodities varies between 44—80% in different areas. Latin America presents a similar picture. For instance, in Venezuela exports of petroleum account for 97%, in Chile exports account for 50% of copper and in Bolivia exports of tin ore account for 70% of her total foreign exchange receipts. Similarly EL Salvador, Iran, Northern Rhodesia, Thailand, Uganda get 89%, 90%, 81%, 63% and 74% of their foreign exchange by exporting coffee, oil, copper, rice and copper respectively.

This excessive dependence on exports has certain determental consequences for an under-developed economy. *Firstly*, the economy becomes biased towards production for exports to the comparative neglect of other sectors of the economy. *Secondly*, the economy becomes unstable due to frequent changes in foreign exchange earnings caused by fluctuations in the international prices of the export goods. *Thirdly*, it is pointed out that of late there has been going on a regular deterioration in the terms of trade of primary producing countries, so that the richer developed countries are benefitting at the expense of the poor under-developed countries. *Fourthly*, the export orientation of such economies has stepped up their marginal propensity to import.

(12) **Poor Economic Organisation.** Another important feature of the under-developed economies is poor economic organisation. Either certain institutions necessary for economic development are practically non-existent or are not adequately developed. Certain economic institutions like *financial institutions and credit agencies are practically non-existent, particularly in the rural areas.* To mobilise savings, more especially the savings of the rural sector, the creation and development of financial institutions is a *'sign qua non'* but these economies do not have enough financial institutions in rural areas to mobilise rural savings. Industrial banks are found nowhere. Besides bankings, the under-developed economies do not generally have a *capital market*, or at least a fully developed one where shares and stocks can be bought and sold. Institutional investors such as insurance companies are few and are not significant. As a result of the weakness of monetary and financial systems in a backward economy, mobilisation of capital and the proper investment of them is a difficult task.

(13) **Poor Quality of Human Capital.** Yet another feature of the under-developed countries is the poor quality of human capital. Human capital means the [illegible] labour force. It is the labour which has to play [illegible] the economy. At a basic level, the poor [illegible] evident in low labour efficiency. For manufacturing as a whole the level of productivity prevailing in poor areas is 20%, and less, of that U.S.A. in a typically poor country, it will require at least 5 and perhaps 10 or more workers to produce the same amount of goods that a single American

worker can produce. This low labour efficiency stems from *malnutrition*, low standards of health, illiteracy, lack of training, obstacles to occupational mobility and low value placed on work. Most of the under-developed countries suffer from *mass illiteracy*. A minimum level of education is required to acquire skills. In backward areas 15–25% are literate whereas in advanced countries the level of illiteraey is below 5%. If we enlarge the definition of capital formation to include the use of any resource that adds to future output then beside physical capital, knowledge and training of the population will also form a part of capital. As a result, the expenditure on education, skill formation, research, and improvement of health are included in national capital. A few indices of under-development are the expenditure on research, the number of doctors and engineers available in the country. The approximate expenditure on research per person works out to be 15 paise per year in India and Rs. 1.1 in China whereas in U.S.A., U.S.S.R. and U.K. it is Rs. 1.54, Rs. 1.1 and Rs. 0.85 respectively. The figures of annual out-turn of engineers, and doctors per million of population in India in 1960 were 16 and 13 respectively, for China 31 and 11. Compare these with 158 and 43 for U.S.A., 335 and 100 for U.S.S.R., 355 and 37 for U.K.

Labour is also immobile among occupations. Caste systems inhibit occupational mobility and make vertical mobility difficult, thereby narrowing the choice of occupations Moreover, labour mobility is low as workers do not respond to income incentives. Certain cultural and psychological factors [illegible] determining the supply of labour. [illegible] with the joint famil[illegible] account for occupational immobilities. In these economies dignity of labour is conspicuously absent. Government jobs, even of a clerk, have more prestige than manual work.

(14) Factor Disequilibrium. Under conditions of perfect factor mobility or economic dynamism, an economy tries to secure maximum utilisation of its resources or maximum productive efficiency by allocating them in the best manner. In R.S. Eckyas' terminology, under ideal conditions the economy will be directed towards the production possibility curve or "production frontier". But the under-developed economies a[illegible] market imperfection [illegible] the "produc[illegible] of under-developed economies For example, labour is extremely immobile in such economies. In many occupations workmen may encircle round zero productivity but they would refuse to move to another occupation, which would offer them higher wage. Custom, habit, poverty and attitude regulate the desire for the labour-mobility in the rural sector of such economies. Again, the capital is not very much mobile in poor countries. Social attit[illegible] about saving and investment interfere with saving [illegible] at modern standards. The people's p[illegible]

cash definitely obstructs the mobilisation of savings and their channelisation into modern enterprises. Besides factor immobility, monopolistic practice, ignorance of existing domestic and international market possibilities, lack of specialisation, rigidity of price and production structure and unprogressive social all create various market imperfections leading to factor disequilibrium which results in sub-marginal allocation of resouces and keeps the economic within its "production frontier". The result is economic stagnation and inflexibility which keeps the underdeveloped economy far below its potential. Thus, an imbalance in factor combinations acts both as the cause and effect of poverty in poor countries.

(15) **Economic Backwardness.** The people in under-developed economies are economically backward *i.e.*, the quality of the people as productive agent is low. "Instead of acquiring the greatest possible control over their physical environment, the people have sruck balance with nature at elementary level. They have been relatively unsuccessful in solving the economic problem of man's conquest of his material environment. Particular manifestations of this are low labour efficiency, factor immobility, limited specialisation in occupations and in trade, lack of entrepreneurship, economic ignorance and a value structure and social structure that minimise the incentives for economic change."[1] The [illegible]

The economic backwardness also appears in its social structure. Frequently, the structure of social relations is hierarchical and social cleavages are pronounced. An individual's statics is ascribed in terms of who he is or who his antecedents were, rather than being achieved by his own efforts. The *value system* minimises the importance of economic incentives, material rewards, independence and rational calculation. It inhibits the development and acceptance of new ideals and objectives and fails to compare costs and advantages of alternative methods to achieve objectives. There is a little belief in man's power over nature. Instead, nature is commonly accepted as more powerful than man, some thing to be adjusted to rather than to overcome. In poor economies the operations of an exchange and market economy are scarcely understoad, instead of attaching significance to the practice of economic individualism the societies are custom-bound—the emphasis being on an established pattern of economic life, family-life and religious-life. Religious belief may place the possibility of changing one's status in the next life, not in this one. The people believe that God only and man not himself, can improve men's lot. Even though the people may have tatent abilities, they lack the motivation and stimulations to introduce change.

Q. 2. What are the historical reasons for India remaining an under-developed country inspite of her artisans and world reputation of her manufacturers in the past ? *(Agra 1981, 78 ; Punjab M.A. 1956)*

1. Meier and Baldwin : Economic Development, p. 293.

Or

Discuss the economic and social factors impending economic progress in India.

(Kurukshetra 1976 ; Cal. B. Com. 1978 ; Bombay 1976, C.A. 1969)

Or

***State* to what extent the basic features of Indian economy have been responsible for the slow growth of Indian economy.**

(Pbl. B. Com. 1978, Agra 1978 : Jiwaji 1980)

Or

Evaluate the impact of socio-religious institutions on the economic development of India. *(Agra 1967 ; Jodhpur 1976 ; Kurukshetra 1978)*

Or

***What has been the influence of social and religious institutions on* the development of economic life in India ? Discuss.**

(Agra 1974 ; Panjab 1972)

Or

Examine the main non-economic obstacles to India's economic growth. *(Pb. B. Com. 1982; C.A. 1969 ; Delhi 1978)*

Ans. India has been termed as an under-developed economy because of her low per capita income, inordinate rate of population increase, unemploment, lack of banking and credit facilities, capital deficiency, low level of technology, under-developed natural resources and lack of suitable socio-economic structure. Naturally the question arises what were the historical reasons for India remaining a backward economy *inspite of her artisans and world reputation of her manufacturers* in the past. "At a time when the rest of Europe, a birth place of modern industrial system, was inhabited by uncivilized tribes, India was famous for the wealth of her rulers and for the high artistic skill of her craftsmen. And even at a much later period, when the merchant adventures from the West made their first appearance in India, industrial advancement of this country was, at any rate not inferior to those of the more advanced European nations."[1] It is *a fact that agriculture has been dominant occupation in India but the products of India industries enjoyed a world reputation.* "The Muslin of Dacca which was known to the Greeks under the name 'Gangetika', the calicoes of Bangal, the sarees of Benaras and other cotton fabrics were known to the foreigners. Egyptian mummies were found wrapped in Indian muslin dating back 2000 B C."

But today India is one of the poorest countries of the world. The poverty of the Indians is a by-word. The percapita income in the country is *extremely low.* When compared with *that of the countries of* North America and Europe it gives a rude shock. Why we must go after statistics to get an idea of poverty when it is written on the faces of the people ? Our teeming millions do not live, they just exist,

1. *Industrial Commission Report, p. 1.*

and that existence too is most wretched. Millions cannot afford even two square meals a day and, therefore death by starvation is not unknown. They are not only ill-fed but are ill-clothed and ill-housed also.

On the other hand, it is a known fact that nature has endowed India with rich natural resources second only to those of the U.S.A. and the U.S S R. "Is it not then a veritable enigma that the Indian people should be so poor ? Verily, this is a paradox, but its explanation is not at all difficult. A combination of economic, social and political factors is responsible for this sorry state of affairs." *Ragner Nurkse's* words, "Economic development has much to do with human endowments, social attitudes, political conditions and historical accidents" hint clearly the very causes of India's under-development inspite of her being rich in natural resources. The simplest answer is that man has failed to take full advantage of the gifts of mother Nature.

If India remained poor or under-developed and there is a low level of economic growth there are several factors—political, social and economic which have hindered the economic growth of our country. For centuries, these factors have stood as road-blocks retarding economic growth and perpetuating a low level of economic and social welfare for our people. Let us now examine these factors which have kept India in a state of under-development.

I. Political Fectors. During their 200 years' regime, our foreign rulers persued a selfish policy of exploitation. They were more interested in supplying their home factories with Indian raw materials than in bringing about the economic development of India. They persistently drained her resources swamping her with English and foreign production and instead of fostering her industries they handicapped them in [illegible] the foreign government [illegible] perhaps been the most important cause of economic backwardness.

In matters such as currency and exchange, tariffs, stores-purchase, which were so vital to the economic progress of the country, Britain followed a policy calculated to serve her own interests rather than advancing those of this country.

They made only *lukewarm efforts for the removal of social obstacles* which stood in the way of our prosperity. Lastly, we had to support an *expensive system of administration* for the benefit of a few Britishers. Heavy expenditure on the bureaucratic machine adversely affected the already slender resources of our poor country. The result was that nation building activities received but scant attention.

II. Social Factors. The social factors have also played their part in keeping India at a low level of economic development. Among the social forces impending India's economic growth, we may mention the following.

1. Caste System. Despite its flexibility in the initial stages, caste system became more and more rigid with the passage of time and

came to be regarded as divinely order. The economic efforts of the system have been most fundamental. Under the system, a man has no choice of occupation. He is to follow the profession of his caste even when he has no attitude for it. The system has thus dried the spirit of enterprises and initiative by preventing the free mobility of labour. This has resulted in the birth of non-competing groups of labour, thus depriving society of the benefits of free competition. Again, the system produced a feeling of hatred among the members of the higher castes for manual labour. This has been having its bad effects on the economy of the country. The system has thus retarded economic growth and has led to ruthless exploitation of the people of the lower castes by those of the higher castes.

2. **Joint Family System.** Another important social institution in India which has retarded economic development is the joint family system. There is no denying the much too obvious advantage of the system in as much as it guarantees food and clothing to all the members of the family including the old and the infirm. The system has, however, encouraged idleness and irresponsibility and bred drones in society. Apart from giving rise to family feuds and imperilling peace and harmony of the family, joint family also stifles enterprise and retards capital formation so very essential for the economic progress of the country.

3. **Laws of Inheritance and Succession.** The laws of inheritance and succession have also affected economic conditions to a great extent. In industry, they have retarded the formation of large-scale, enterprises. In agriculture, they have led to uneconomic holdings. They have thus encouraged subsistance farming and indebtedness and have seriously stifled the enthusiasm for improvement in agriculture.

4. **Institution of Marriage.** The universality and early age of marriage lead to increase in the child bearing age and result in an increase in the birth-rate. Early marriage also dampen the vitality of women and results in heavy mortality in infants and in women of child-bearing age.

5. **Superstition and Outmoded Religious Belief.** Superstition is so strongly embedded in the minds of the Indian masses that they have failed to adopt a rational attitude towards life. By and large, the people are fatalist. They mostly believe that everything is pre-determined by God. Such an overwhelming emphasis on the spiritual aspect of life renders people incapable of putting in hard work, makes them lethargic and reduces their efficiency. There is invariably the desire to have at least one son who may peform the father's last rites to enable him to attain salvation. A large number of women are forced to live in the home. It undermines their health and also deprives the country of the contribution of our millions of women who would otherwise have supplemented the income of their families. The practice of costly rituals in connection with births, deaths and marriages also result in huge national waste.

III. Economic Factors. Apart from the non-economic factors, there are some economic factors also which have been responsible for the poor economic growth of our country. Of these the following are very important :

1. Excessive Dependence on Agriculture. Excessive dependence on agriculture has been a main cause of our poverty. From times immemorial agriculture has been the primary occupation of the people in this country. It provides livelihood to nearly $\frac{3}{4}$ of our people and is the back-bone of our economic system But this preponderating importance of agriculture is a basic weakness. It has made our economy lop-sided and has kept the country economically backward.

2. Backwardness of Agriculture. Though agriculture is the main industry in India, it has been in a state of stagnation for a long time. Lack of irrigation facilities coupled with inadequacy and uncertainty of the rainfall, sub-division and fragmentation, defective agricultural techniques, inefficiency of the human element, agricultural debt and equally heavy agricultural population are some of the causes of our agricultural backwardness.

3. Shortage of Capital. Another economic factor which has retarded the economic growth of our country is the shortage of capital. We lack sufficient capital. Our masses are too poor to save and capital-formation in our country is, therefore, very low. In the absence of adequate capital, it is simply impossible to accelerate the pace of economic progress.

4. Lack of Entrepreneurial Ability. Our poor economic development is further attributable to the lack of entrepreneurial ability which is rare in the country The social atmosphere and defective system of education have been responsible for the disinclination on the part of the youth to take up an entrepreneurial career.

5. Scarcity of Skilled-Labour. Facilities for technical training, have been lacking in the country. The resultant scarcity of skilled labour has been another serious obstacle to economic growth.

6. Ignorance of Modern Techniq[illegible] modern techniques is most essential for a [illegible] adds to our cost of production and it [illegible] industries. Ignorance of modern techniques has been yet another grave hanicap.

7. Inadequacy of Transport and Credit Facilities. A well-developed system of transport and communication is a must for the economic development of a country To a very large extent, economic development of a country also depends upon the development of its system of banking. Unfortunately, both these facilities in India have been extremely meagre.

8. The Rapid Growth of Population. The rapid growth of population has been nullifying whatever little improvement in produc-

tion has been attained. The existence of the food problem is a very convincing evidence of the gap between population and production.

9. Vicious Circles of Poverty. Many obstacles to development are both a cause and consequence of poverty. In fact, there are circular relationship known as *vicious circles of poverty*, that perpetuate the low level of economic growth in a backward economy. The basic vicious circle goes like this that total output is low, and that, after consumption needs are satisfied, little remains as a surplus for capital-formation. Because of the low level of real income in the poor countries the flow of saving is also meagre. The low level of real income is, primarily due to an extremely insufficient capital stock and secondarily to market imperfections. And the low level of capital stock is a consequence of the low level of real income. The deficiency of real resources and low productivity visible in Indian economy produce the basic vicious circle. *Other vicious circles have strengthened and overlapped this basic circle.* The low level of real income acts both as a cause and consequence of the low level of demand: low real income leads to a low level of demand which, in turn leads to low investment and hence back to capital deficiency.

Another vicious circle encompasses our under-developed resources. Through illiteracy, lack of skills, deficient knowledge, factor immobility, and indifferent attitude of the British rulers, our resources have remained unutilized, underutilized, or misutilized. Under-developed resources have become, therefore, both a consequence and cause of the under-developed characteristic of our population and we have remained submerged in a state of semi-serfdom amidst semi-stagnant conditions.

Thus several political, social and economic factors have been responsible for the tardy development of Indian economy.

Q. 3. "A country is poor because a country is poor." (Nurkse). Discuss with special reference to India.

Or

"A circular constellation of forces tends to act and react upon one another in such a way as to keep a poor country in a state of poverty." Explain with reference to India. **(*Delhi 1980, Agra 1978*)**

Or

"An under-developed economy is capital-poor yet its demand for capital is low." Why?

Or

Describe the vicious circle of poverty. How can it be broken?

Ans. During last 100 years or more the advanced countries have made remarkable progress while the backward countries continue to be underdeveloped. Why is it that these economies have remained poor? In recent years economists have tried to explain the phenomenon of under-development in terms of the 'vicious circle of poverty.'

Meaning of Vicious Circle of Poverty. To understand the meaning of this concept we may draw upon a homely example. A poor man may not have enough to eat. Being under-fed, his health may be poor. Being physically poor, his working capacity is low, which means that he is poor and will not have enough to eat and so on. In brief "the man is poor because he is poor."

The same is true in case of a country. For a poor country, its poverty is itself the major obstacle to its development. Because it is poor, the country does not grow, because it does not grow, it remains poor. We may say of the poor country: "It is poor because it is poor."

The concept of the vicious circle is very clear. It sees poverty, particularly poverty which has been a long-established condition as a major obstacle impeding the economic progress. The vicious circle, in the words of *Ragner Nurkse* implies, *"a circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a state of povery."*

A poor country suffers from many vicious circles of its social set-up which is traditional, rigid and discouraging and not show signs of healthy change. Similarly, the people are weak, illiterate and ignorant and fail to react favourably to new thoughts and innovations, which are essential for economic progress. Further, its population increases at a fast rate, in spite of high rates of deaths. In brief, the overall atmosphere is discouraging; economic progress under such conditions becomes difficult. As *Prof. Higgins* remarks, *"The road to economic development is paved with vicious circles."*

But more important than these are the circular relationships which retard capital-formation in poor countries. All poor countries have been capital-poor and the rate of capital-formation in them has been low. Because of the scarcity of capital and the low rate of capital-formation, these economies have not been able to show any worthwhile growth.

Why has capital-formation been low in these countries? To find an answer to this question, we may look to the forces of supply and demand for capital. The supply of capital is governed by the power and will to save; the demand for capital is governed by the incentives to invest. A circular relationship exists on both sides of the problem of capital-formation in these countries.

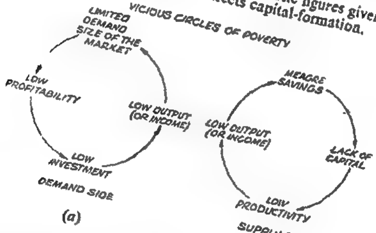
On the *supply side* there is the low capacity to save, resulting from the low level of income. The low real income is a reflection of low productivity, which, in its turn, is due mainly to the lack of capital. The lack of capital is a result of the small capacity to save and so the circle is complete.

On the *demand side*, the inducement to invest may be of the small purchasing power of the people which is due to their

real income, which again is due to low productivity. The low level of productivity, however, is a result of the low amount of capital used in production, which in its turn may be caused, at least partly, by the low inducement to invest.

In a poor country, thus, the supply of and demand for capital are both low. On the supply side, low incomes lead to low savings, low capital and low productivity. Likewise, on the demand side, low incomes lead to poor demand for goods, to low profitability, to low investment. It may be noted that low level of real income, reflecting low productivity, is a point that is common to both circles. *Hicks* has rightly remarked "The snake eats its own tail." This is very evident in the figures given below.

Causes of Vicious Circles of Poverty. The figures given below describe the circular causation as it affects capital-formation.



(a) (b)

Fig. 1.1.

Supply side. We may take the supply aspect first. Capital-formation involves the sacrifice of present consumption for higher level of future output. Part of the stream of current production is diverted from immediate requirements and added to the stock of capital where it will contribute to higher productivity. But in a poor economy the scope for such sacrifice is extremely limited. A very large number of the people is living at the margin of bare subsistence. The farmers, who form the bulk of the population, till the land with a few old tools, and implements; methods of cultivation are out of date and inefficient; in the best of times, they harvest a crop just sufficient to keep their families at the level of subsistence. But then there are the years of famine, drought, etc. in which even this basic need is not fulfilled. Under such circumstances, postponement of current consumption in favour of saying, and, capital-formation will necessarily be extremely difficult. Present needs are simply, too important and pressing; and cannot be

postponed. The same is true of other poor sections of the community. In brief, a very large majority of the people is unable to make any significant saving.

We should remember that in a poor economy there are always individuals (princes, landlords, priests, merchants) who live much above subsistence and who can if they want, provide capital for the economy. No doubt, these people do save and invest, but in their case saving and investment are much lower than should have been possible otherwise. They lead a luxurious life and spend a lot of money on conspicuous consumption. In the absence of any powerful incentives, the rich prefer to lead a life which is very burdensome to the country and is above the general standard of living, they waste away their saving ; the economy fails to gain the full benefits of their high incomes and the potential savings.

As a consequence of the low incomes of the majority and conspicuous consumption of the minority, saving and investment in the poor economies are very poor. Worse still, a good part of income is used for ceremonies and othes celebrations. This could be put to productive capital-formation. But the primitive set-up and the absence of economic motivation dry up this source. In sum, in poor economies, saving is low and productive capital is poor.

Demand side. *The poor country is capital-poor and yet the demand for capital is low.* There is a vicious circle on the demand side also. Suppose that the wealthy few in a poor society decide to for- [illegible] life in order to save and invest [illegible] What will the result be ? For one thing, they may be able to find surprisingly few profitable outlets for investment [illegible], with the bulk of popu- [illegible] in isolated villages, the [illegible]

The inducement to invest is limited by the size of the market. Large-scale industry requires a big market. But in a poor country the purchasing power of the people is poor and, therefore, the extent of the market is bound to be small. "It is a matter of common conservation that in the poor countries the use of capital equipment in the production of goods and services for the domestic market is inhibited by the small size of that market and by the lack of domestic purchasing power."

It is, thus, obvious that in a poor country the entrepreneur has to face problems from all sides. The people are poor and so the market for his products is small. The resultant low profitability of investments acts as a serious hindrance. The entrepreneur does face serious technical problems and problems of getting plants, machines, etc. But the poor demand is the most serious of these and discourages investment.

The 'vicious circle of poverty' is a result of the various circles' which work on the sides of supply of and demand for ca-

As capital-formation remains low, resulting in low productivity and poor incomes. The country is caught in the vicious circle of poverty which it is not easy to break.

The Solution.

The poor countries have remained poor for long. They suffer from chronic stagnation. For long poverty has been their fate. The 'vicious circle of poverty,' which afflicts them, has become deep-rooted and does not show any sign of disintegration. The experience of the countries has proved without doubt that *the vicious circle of poverty is not self-correcting, but self-perpetuating*. That is why it is called vicious.

But does it mean that the poor countries will remain poor for ever? Not necessary. At one time all the countries were poor. Then some of them started making progress and steadily grew into the rich countries of today. Some countries today are rich and are in the process of becoming more so. The poor countries can also hope to get rid of their poverty and allow their inhabitants a reasonable standard of living To quote Ragner Nurkse, "The nations concerned need not and will not accept the state of under-development as an inexorable decree of fate." It is in this that lie the hopes of a large part of the world.

But then it needs to be noted that poverty cannot be shunted out without an all out effort. Its solution requires a frontal attack. To break the vicious circle on the supply side, the country has to make use of every possible source of saving and investment. It should use its savings for creating productive capital. The expenditure on ceremonies, celebrations, conspicuous consumption, and on unproductive assets such as land, bullion and foreign exchange should be reduced and used for productive activities The available savings should be diverted to productive activities. *Secondly*, the people should keep a check on consumption. Yet savings can be promoted by keeping these standards stable for some time and thus using the increments in income for saving and capital-formation. *Thirdly*, the poor countries have a saving-potential hidden in the disguised unemployment. This can be put to productive uses. And *finally*, a part of the capital needs can be met through external assistance. All these sources should be tapped in promoting savings and capital-formation.

Similarly, the vicious circle on the demand side is also to be broken. The demand for capital is to be improved and the size of the market has to be expanded. Various measures have been suggested to solve the 'market problem.' Prof. Nurkse has suggested a 'synchronised application of capital to a wide range of different industries so that people working with more and better tools in a number of complementary projects become one another's customers. He has pleaded for 'balanced growth.' Some writers like Hirschman have taken a different view and have argued for 'unbalanced growth', as a means of enlarging the market.

"There are, no doubt, differences among economists about the best course which a poor country can adopt for breaking the vicious circle of poverty. But all of them agree that, given proper efforts, it can be done. Poverty is eradicable and economic advancement is achieveable. We know that in some parts of the world economic development has actually occurred ; something must have happened there to break the circle. So the theory of stagnation must be succeeded by a theory of development explaining the forces that are required, or that were observed in the past, to lift the economy out of the stationary state in which it would other-wise tend to settle." (*Nurkse*).

Prof. Nurkse has rightly concluded, "The circular constellation of the stationary system is real enough, but fortunately the circle is not unbreakable. And once it is broken at any point, the very fact that the relation is circular tends to make for cumulative advance. We should perhaps hesitate to call the circle vicious ; it can become beneficent."

Q. 4. "Indian Economy during 1850—1950 was in a state of stagnation." Explain the statement.

Or

"During 1850—1950 Indian economy was in a state of under-development." Explain.

Or

How will you show that India, which during 1850—1950 was a stagnant under-developed country, became after 1950 developing under-developed country ?

Or

What changes do you notice in Indian economy over the past three decades ? *(Pbi.1977, G.N.D.U. 1976 ; Pb. B. Com. 1978)*

Ans. *Prof. Malenbaum* writes, "At the initiation of Indian development programmes, the Indian economy was not in a state of low level equilibrium, where resources were being fully used, given the state of [illegible] different sectors was yielding [illegible] Rather, the economy was in [illegible] disequilibrium." "There was excess capacity in several industries, irrigation facilities remained unutilised and there was a large number of unemployed or under-employed people, the railway, rolling stock was also not fully used. In this situation, currently available resources, if fully used, could yield larger output and national income. In spite of the fact that 100 years back several industries had been started, integrated iron and steel industry had been established, roads and rails had crossed the sub-continent, indigenous entrepreneurship had grown, financial instrument had been created, yet India was industrially [illegible] in 1951 as in the first decade of the century." Indian [illegible] dominated by agriculture. Considering the price changes that the level of real per head income had been the same

and 1950-51. Per head income of Rs. 20 in 1868, or Rs. 27 in 1882 may not be much different from Rs. 65 in 1931-32 and Rs. 265 in 1950-51. It is estimated that since the growth in population was greater than the growth of total output, there was a fall in per head income which may have been more that 10% between 1930-31 and 1948-49.

Taking the rural sector into consideration, we find that the cultivated land per capita fell from 1·09 acres in 1891 to 0·84 acres in 1951. But this fall was not compensated by any significant increase in per acre output so that output per head fell. There was no fall in the ratio of workers dependent upon farming which would have shown economic growth. Upto 1941, the rural urban ratio of population remained what it was at the start of the century. The output per acre remained meagre. For decennial periods (1893-1896=100), the per head output ratio over the period 1916-1926 was 98 and for 1936-46 it was 80. The index of total from output was 6% lower in the year 1946-1951 than in 1934-1939. It is a clear evidence of a declining rural economy. The large mass of the farmers were so conservative that they were altogether immune to "demonstration effect." The modern and scientific methods used in plantation did not induce any emulation in the peasantry. In crop competitions, rice yields per acre between 3,000 and 9,000 lbs. were obtained but the average yield continued to be 400-1,200 lbs. Thus the average cultivator was impervious to change. Instead of urbanisation, which is taken as a sign of economic development, there was increased ruralisation. The ratio of people dependent on land to total working force increased from 61% in 1881 to 71% in 1911 [illegible] In U.S.A. this ratio fell from 6[illegible] later. This indicates that India [illegible] o economic development.

"This rural stagnation, or perhaps slow determination, cannot be attributed altogether to unfavourable political environment. In contrast to earlier rulers, the British rule gave India political stability and took great interest in agriculture, at any rate in export crops needed as raw-material for British industry. Perhaps the uncertainties of land tenure and the possibilities of large State levies discouraged agricultural improvements. Peasants confined themselves to subsistence farming. The extension of means of transport and the expansion of markets [illegible]

[illegible] ivator." The holdings [illegible] we find that inefficient [illegible] onomic holdings. The [illegible] a further depressing [illegible] inerative neither the [illegible] improvements.

The existing social order was also not helpful for economic development. The Indian village society is "traditionally peasant society (where) inter-personal relations are subject to mutual accommodation and adjustment according to the concensus of the village elders vertical mobility (is very limited land) the vast majority (of individuals) view themselves as performing a given activity and function in life (where) their status and the circumstances impinged on them. Relationships among people in such societies are governed by bonds of family and caste more than by some objective interdependence—even that of personal preference, to say nothing of functional interdependence."[1] Naturally such a society makes for stagnation rather than economic growth. Even now our remote villages behave economically and socially as they did fifty years ago. In these conditions significant changes in the economic sphere cannot be successfully started. "New economic forces cannot pierce this thick screen of social structure and institution. New policies and tools of economic growth cannot be expected to yield quick results. The social set-up must change to make way for rapid economic progress." In the words of the *Planning Commission,* "Progress in village in India is the last analysis a human problem .....of changing the outlook of 70 million families living in the country-side arousing in them enthusiasm for new knowledge and filling them with the ambition and will to live and work for a better life." As in other backward economies, a large portion (40-50%) of the produce is consumed within the family and does not touch the market and relatively few families (less than 15%) conduct their business in the form of cash. Barter deals do not facilitate economic growth. The level of monetisation affects the investment behaviour of the rural families and thus determines economic growth.

On the industrial front also the Indian economy has been static. The ratio of urban population, which is an index of industrialisation, was 8·7% in 1872, it may have been at least between 9% and 10% in 1800, and was probably at the same level in 1901. The Indian handicrafts were decaying quickly in the 19th century owing to various adverse factors. Modern industrial enterprises started in the middle of the nineteenth century, were unable to fill up the gap created by the decline of old Indian industries. It could not absorb the displaced handicraftsmen. Although industrial output started increasing especially during and after the World War I, but the rate of growth was disappointingly meagre. Even as late as 1945-1950 the overall index of industrial output indicated an increase of only about 5%. Factory employment in 1950 accounted for only about 3% of the total labour-in force. Unemployment, open as well ar disguised, was increasing. There was lack of diversification in industrial growth. Textiles continued to dominate. The machine tool industry was absent and the country almost entirely depended on imports for machinery and for most chemicals. There are a few indicators of industrial stagnation. "The

1. Quoted by Dewett and Singh in "Indian Eoonomics", p. 6.

record of 1850-1950 is clear. While other countries were undergoing reasonably steady industrial expansion and diversification from the beginning of modern industry in the early and mid-1800's, India had a beginning and ending, for not until a century later, with the coming of Independence did India again move towards an active broadening of industrial base." (*Malenbaum*) This industrial stagnation was largely due to the fact that India was a colony of a highly industrialised nation and lacked entrepreneurial talent and financial facilities. There was no organised and developed capital market. Direct financing by the saver occupied an important place. There was a complete absence of financial institutions to assist transfer of s[illegible] in 1950 eight Marwari families [illegible] ries, banking and insurance. These handicaps explain why industrial effort was not sufficient to accomplish a transition to modern industrialisation.

We may agree with *Malenbaum* when he remarks, "A century without overall progress, with a growing rural and agricultural imbalance in population, makes the shift to new ways of life difficult. Low horizons of the mass of the people become fixed; there is an inevitability about poverty and perversity. Cultural and religious traits which stress the inability of man to influence his life are strengthened. The task of changing the behaviour pattern and the outlook of the mass of the people is much greater than it would have been if begun a century back."

Our economy has been affected in its growth mainly by political and social factors. Indian economy has suffered from all the ills of an alien rule. Naturally the Britishers could not be expected to take genuine interest in our economic development on sound and safe lines. Owing to political subordination, India had the bitter experience of following policies not in the economic interests of India, but that of Britain. Every effort was made by the Britishers to make our economy complementary to their own economy which largely meant that our economy must be made as to provide raw-materials for their industry and an expanding market for their manufactures. "It was a story not of an arrested economic development but of a deteriorating economic situation and semi-stagnant conditions. Conspicuous consumption and economic inequalities dominated the economic horizon. Vast majority of the people were in a state of poverty that knew no parallel in the world. The rates of savings and investment and the development of transport and communications, trade industry were too low to absorb the growing population."

Whether we view the Indian economy from the agricultural or the industrial angle, the century 1850-1950 was a period of economic stagnation.

Indian Economy : A Developing Economy (After 1950)

There is no doubt that Indian economy is still under-developed because it still exhibits all the characteristics of an under-developed

economy, yet it is no longer stagnant. On the other hand, it has started marching on towards the goal of a developed economy. The pace of development has quickened since 1950 when we launched our development Plans. We may notice the following few changes which show unmistakably that Indian economy may now be rightly called a developing under-developed economy :

(1) **Increase in National Income.** The net output at 1948-49 prices, which was Rs. 9,550 in 1950-51, increased to Rs. 88500, showing an increase of 850% nearly in 30 years. In 1981-82 alone the national income advanced by 6·9%. Before 1950 the annual rate of growth was only 2% during 1967-68 it increased by 9.3%, during 1968-69 it increased by 2·4%, during 1969-70 it increased by 5·3% and during 1970-71 it increased by 4·7%, during 1971-72 it increased by 1.2% and during 1972-73 it went down by 0·3% and during 1973-74 it went up by 2.7% and during 1981-82 it increased by 4·7%.

(2) **Increase in Industrial Production.** Symptomatic of the change in the nature of the Indian economy is the fairly rapid rate of industrial growth. The general index of industrial output (Base : 1960=100) increased from 54·8 in 1951 to 265 in 1981, showing an increase of 360%. Industrial sector achieved a growth of 4·2% in 1973-74 and 5·1% in 1981-82. It is well-known that industrial progress sets the pace for economic progress.

(3) **Increase in Farm Production.** Stagnation even in farming seems to have been broken down. The index of agricultural output (Base : End June 1950=100) (all commodities) stood at 95·6 in 1950-51 but increased to 212·2 in 1981-82 and that of foodgrains from 87·9 to 314 which shows an increase of 180%. The over-all increase in agricultural output is 100%. Agricultural sector achieved a growth of 39% in 1973-74, 5·0% in 1982-82.

(4) **Increase in Investment.** As the national income has increased, the investment in the economy has also been increased. The total net investments in the economy plan-wise were Rs. 3,360 crores in the First Plan ; Rs. 6,830 crores in the Second Plan, Rs. 11,500 crores in the Third Plan, Rs. 13,655 crores in the Fourth Plan and Rs. 19,360 crores in the Fifth Plan. Investment as percentage of National Income rose from 5·6% in 1950-51 to 17% in 1981-82.

(5) **Modernisation of Agriculture.** We can *easily see signs of* ... There is more of irrigation, greater ... proved agricultural practices. Indian ... for centuries, is now awake and is ... revolution – called the "Green ... improved seed varieties, increased use of fertilizers, improved water supplies and better farm practices.

(6) **Increase in Social Overheads or Improvement of the Infrastructure.** Economic development *is being helped by the* development in

the means of transport, development of power, of the banking system, education, etc. During 30 years (1951-1981), power generation has gone up by 1,000% and the railway capacity by 400%.

(7) **Improvement in Quality of Life.** There has been a spectacular progress in the field of education and public health. The number of school-going children was only 23 mn. in 1950-51 and it was almost 90 mn. in 1982. Life expectation has increased from 32 in 1941-50 to 50 in 1951-60 and to 54 in 1961-70 and to 57 years in 1971-80. The death rate was 49 before 1947, in declined to 14·6 in 1981. Enrolment of students at the elementary level has arisen from 32% to 69% and at secondary level from 5% to 25% of the relevant age groups in the period of planning.

These are a few indicators of economic development that our country has made since the beginning of the planning era. In view of the changes we have mentioned above that the Indian economy has undergone in recent years, it is now much bigger and much stronger than it was when we began planned economic development.

In fact, above written indicators of growth have led many students of current economic development in India to express the hope that the "*take off*" is not far off.

"India was characterised by aloofness from the outside world : it consisted of an immense number of entirely self-contained and self-supplying units with little contact with each other and practically no knowledge of the outside world." —*Ranade*

2

THE OLD INDIAN ECONOMIC ORDER

Q 5. Give a brief account of the Indian village communities as they existed in 1750. What led to their decay later on ? (*Bom. 1977*)

Or

What were the main features of organisation of the Indian villages as it existed in the middle of the 18th century ? (*Bom. 1976*).

Or

Describe the peculiar features of the Indian village communities and account for their decay during the period of British rule. (*Guj. 1976, 1978*).

Or

Describe the main features of the village economy in India as it existed in the middle of the 18th century. (*Bom. 1978*).

Or

Explain how the economic isolation of the Indian village was broken down. (*Bom. 1973*)

Or

Give a brief idea of the state of village communities in India in 1750. What were the causes of their subsequent decay ? (*Bom. 1976*)

Or

"The village communities with its peculiar constitution was the most interesting and the most important feature of India's economic life." Discuss. (*Bom. 1973*).

Or

Describe the economic organisation of India in the middle of the 18th century. (*Bom. 1979*)

Or

"India was characterised by an aloofness from outside world, it consisted of an immense number of entirely self-contained and self-supplying units with little contract with each other and practically no knowledge of the outside world." Discuss. *(Bom. 1976 April)*

Ans. The units of the old Indian economic order were the isolated and self-sufficient villages. The main feature of India's old economic structure was the division of the country into villages where the large majority (about 9/10) of the people lived. There were some towns as well which were the seats of administration, pilgrimage, commerce and handicrafts. There was very little contact between the towns and the villages, as the means of transport and communication were primitive and undeveloped. The typical Indian village was an aggregate of land holdings with or without some waste land attached to it and usually it had a central site, where the houses were congregated together, with the lands of the village spreading round about the central site in a series of concentric circles.

MAIN CHARACTERISTICS

1. **Self-sufficiency.** The *main* characteristic of our village was self-sufficiency. Lack of the means of transport and communication meant that the villages were isolated. Being so they had to be self-sufficient. The village had to make its own arragements to meet its wants. It produced everything it wanted *viz.* its food, clothes, domestic vessels, implements, etc. It depended on the outside world only for such things as spices, salt, fine clothes and the coins in which it paid its revenue.

2. **Barter Economy.** The *second* feature was the existence of a barter economy. Money was rarely used to do exchanges or to make payment for the services. There was the direct exchange of goods for foods and payment of services in kind. Corn was used as the usual standard of value. Important village servants like the patels, were given land for their services.

3. **Imperfect Division of Labour.** The *third* feature was the imperfect division of labour. As the demand for the goods of the village artisans were confined to the village, there was no scope for division of labour. Consequently the condition of the rural industry was very poor. Moreover, the village artisans were concerned only with the satisfaction of the existing wants and did not attempt to create new wants.

4. **Immobility of Labour and the Conservatism of the Village People.** The *fourth* feature was the immobility of labour and conservatism of people. Mr. Justice Ranade pointed out in his celebrated work on 'Indian Political Economy', "There is neither the desire nor the attitude for the free and unlimited competition except within certain narrow groups. Custom and State regulations are far more powerful than competition, and status more decisive in its influence than contrast." Custom and status were majored by the stationary character of the Indian civilization, the conservative instincts of the people and more especially by barter economy. Marx noted this deeply reactionary

character of that village system. He maintained that these idyllic village communities, in-offensive though they might appear, had always been on the solid foundation of oriental despotism. They restrained the human mind within the smallest possible compass making it the unresisting tool of superstition. According to him, the "stagnatory, undignified and vegetative life restrained the human mind and brought about its brustalising degradation."

Even those writers paid glowing tributes to the 'Arcadian simplicity and happiness' could notice the undesireable effects of the caste-system and joint-family-system *"The individual was not free in the matter of* choosing his occupation, his standar of life, his religion etc. Birth fixed his status in society, for good or for ill, from which there was no escape." *(Jathar and Beri).*

5. **Supremacy of Custom.** The *fifth* feature of the Indian village was that custom was supreme. Under the influence of the joint-family and the caste-system the individual was forced to reconcile himself to the position in which he was placed just by the accident of birth. He was not free to choose his own occupation, his living standard, his religion etc. Rents, wages and prices were all customary. Rents paid by the tenants to the landlords were all under the spell of custom. Hence for long periods rent paid by the tenant to the landlord remained the same. This was because of the fact that at that time land was surplus and the landlords wanted the tenants. On the other hand, due to the insecurity, the tenants also needed the protection of the landlords. Custom regulated wages too. There were certain recognised customs with regard to the payment of labour which was hired for farm purposes. The artisans received customary payments in the shape of corn. Custom also regulated prices. Normally the prices of the various products remained unaltered. But in abnormal times competition over-powered custom, prices rising up in years of scarcity and dwindling down in years of plenty.

6. **Peculiar Village Organisation.** The *sixth* feature of the Indian village was the peculiar village organisation. The inhabitants of the village were divided into *three* groups which were as follows :

(i) **The Agriculturists.** The agriculturists comprised the land-holding and tenant classes. The vast majority of the people were farmers, some of them were owner cultivators while others were tenants. They had the open field system, cultivating small strips of land, mostly with their own labour. Rarely they employed some hired labour. The required capital was either provided from their own slender earnings or more often borrowed from the village money-lender. They themselves supervised their farms. The farm tools used were old and if there was any surplus they themselves took it to the nearest market to exchange necessaries not available in the village.

(ii) **The Village Officers.** The most prominent officer in the village was the Patel who was responsible for law and order in the village and revenue collection. He was rewarded by a plot of land

called the 'watan' land. Next to him was the village accountant called 'Patwari' (or 'Kulkarni') who kept the village records and accounts. There was also the watchman (or Chowkidar) whose duty was to report crime and arrest offenders. Every village had the Panchayat. It served as the arbitration courts.

(iii) **The Village Artisans and Menials.** Every village had a set of artisans such as a blacksmith, a carpenter, a cobbler, a barber, a potter, a goldsmith, an oilman, etc. The majority of the artisans were servants of the village. They catered to the requirements of the whole village and were rewarded with plots of land and with corn allowances at harvest times. The independent artisans whose services were only seldom needed like the weaver were paid by the job. The duties and remuneration of each group of artisans were determined by custom while the caste rules prohibited inter-caste competition. The various classes of artisans had their own definite sphere within which they did work.

CAUSES OF DECAY

(1) **Administrative Centralisation.** With the establishment of strong Govt. and the development of the means of transport, conditions in the village began to alter. The English policy of administrative centralisation of revenue, police and justice weakened the village autonomy.

(2) **The Growth of the Western Spirit of Individualism.** The growth of spirit of Individualism also contributed to the decline of the old village community. The caste system and the joint-family started losing their influence. The humble classes started aspiring more dignified pursuits and some migrated to towns where they could get more income. The mobility of labour increased and the practice of customary payment began to be replaced by payment for work done. The spirit of Individualism also brought about the break-up of the joint-family. In short, competition began to take the place of custom.

(3) **The Revolution of Transport.** The development of the means of transport and communication by the construction of a net work of railways and roads broke down the isolation of the village and with it the whole internal organisation was thrown into confusion. There was no more need for village self-sufficiency.

(4) **The Industrial and Commercial Revolution in the West.** Mass produced good started invading the Indian villages. The rural industries faced unequal competition from the factories both Indian and foreign. Cheap machine-made imports and kerosene oil adversely affected the spinner, the weaver, the blacksmith, the oilman, the tanner. Where the village industries fell, the artisan was compelled to give up his vocation and join the rank of agricultural labour. The developments also brought about the commercialisation of agriculture.

Q. 6. Review the socio-economic conditions of Indian people on the eve of British Rule.

(Agra 1980, Bom. 1976, Bom. 1978)

Ans. Even as early as the beginning of the 19th century economic conditions in North India were not fundamentally different from those in South India.

(1) **Agriculture.** According to the first census (1872) roughly 68% of the adult male population derived their livelihood from land. The influence of agriculture at that time appears to be still more important when we consider that even that section of rural population which was ordinarily engaged in an industrial occupation, has agriculture as a subsidiary occupation. Because of the political reasons, the economic condition of the peasants was not the same in all parts of India. While in Bombay the ordinary tiller was well off, in Madras and in Bengal, his condition was poor. The methods of cultivation were primitive. The implements were old-fashioned. No fertilizer was used. The system of rotation of crops was unknown. Judged by any standard Indian agriculture was in an extremely pitiable condition.

(2) **Towns and Banking.** On the supposition that the proportion in the beginning of the 19th century differed largely from that in 1872, Gadgil concludes that the urban population was amounted to 10% of the total population. The main features of town life were naturally different from those of rural life. The urban inhabitants had to import supplies of food from nearby villages. In towns industry was organised in a better way, the markets were wider, money was in wide use and the organisation of credit was far more efficient. The wide use of Indian credit instrument such as hundies or bill of exchange facilitated transfer of money from one account to another all over the country.

But towns were not very influential in Indian economy. As [illegible] were almost as something apart [illegible] The origin and the prosperity [illegible] been treated to three reasons: [illegible] Benaras, Allahabad, Gaya, Puri, Nasik; or (*b*) they were the capitals of provinces or the seats of a court like Delhi, Lucknow, Lahore, Tanjore, Poona, Arcot, Dacca, Murshidabad; or (*c*) they were commercial depots, owing to their existence to their favourable positions along trade routes, such as Mirzapure, Bangalore etc. The sacred places attained a period of uninterrupted prosperity as long as the holy religion because of which they got importance was widely prevalent. The decay of the influence of Buddhism brought about a decline in the influence of Bodh Gaya, but since the large majority of the sacred places were Hinduistic they enjoyed a continuous prosperity for centuries.

(3) **Industries.** In these holy towns, such as Benaras, there prospered brass, copper-ware and bell-metal industries manufacturing sacred utensils for which there was a great demand from the pilgrims. The court towns were also very prosperous but their prosperity depended upon court patronage, and they fell with its collapse. The commercial towns which owed their importance to their peculiar situation were certainly not numerous in India, but they were far more

stable than court towns. There were certain industries always in every town. But all these industries had one feature in common. There were art and luxury industries, and they could not exist independently of the courts or sacred places. These industries were not the cause of the importance of these towns. *Dr. Gadgil* observes, "From an economic point of view, the dominant trait of Indian towns was their non-industrial character."

(4) **Transport and Communication.** Throughout the history of India, difficulties of transport had been a retarding factor in political and economic progress. This fact that the Indian village organisation remained same for centuries must be attributed to certain persistent factors such as lack of transport and the consequent absence of an effectively centralised system of administration. In fact, the means of internal communications were very defective till as late as the middle of 1 th century. Many of the so-called roads were just tracks cut by village carts across the face of the country. Indian kings sometimes took great interest in developing good trunk-roads for inter-provincial communication. But they were thoroughly inadequate for a vast sub-continent like India and their condition was highly unsatisfactory. After the fall of Moghuls, they were totally neglected and the East India Company did little to improve the roads. Moreover, in the first few decades of the 19th century, the Indian roads became unsafe owing to the activities of bands of highwaymen. There were no navigable canals but in the Indo-Gangetic plains the great rivers always served as great natural highways

(5) **Trade and Commerce.** Lack of transport facilities brought in its train isolation and self-sufficiency of the village and the prevalence of local economy with all its difficulties; such as the immobility of labour and the conservatism of the people; lack of division of labour and lack of trade and commerce; and local scarcity and famine. Since roads were bad, the carts used for carrying goods were of a primitive type. But even these carts used these roads in dry season. As the movement of wheeled traffic was not possible during the rainy season, pack animals led by caravans were the only means of access to many parts. It is not surprising, that rates of carrying of all types of goods were very high and that consequently there was very little trade. As the carriage of agricultural products or of bulky goods involved huge costs, the trade was in general restricted to light and valuable products. In north India the conditions were better because of the navigable rivers along which a considerable trade even in bulky products was carried on. But trade between south and north India was not substantial, and a good many of the art products of the north were not known in the south.

(6) **Prices.** As there was meagre internal trade, the prices in one part of the country had no relation with prices in other part. Dr. Gadgil has shown that in the terrible famine in the north-West provinces in 1833, the price of wheat at Agra was 13 seers per rupee but in Khandesh, where there was plenty in that year, price of wheat was

as low as 61 seers per rupee. The lack of trade converted local scarcity ght down prices to very low levels. Gujarat in 1812, bajra was selling fell to 31 seers per rupee: at Salem s per rupee in 1832 and in the very next year price rose as high as 33½ seers per rupee."

(7) Sociological Background. India at that time was divided into isolated and self-sufficient village where majority of the people led " Reason had almost no man. Tradition and uman mind within the sisting tool of superstition. Religious conservatism played a very important part in fostering this type of miserable existence. The belief that the individual's present lot is the result of his actions in earlier existences, had worked as a bulwark against discontent and urge for social reform. Since a Hindu believed that God had placed him just where he deserved to be, he was in no mood to try to change his condition. The philosophical mysticism and religious superstition brought about a lack of ambition for economic and financial success. "In India, due to the unchanging method of cultivation, cultivation of land used for thousands of years, gave rise to the operation of the Law of Diminishing Returns. Agriculture became just a way of life. In this environment, the only outcome of ambition was disappointment; and a man, if he was ambitious for material success, was sure to ruin his life." (*—Buchanan*)

"Whatever might have been the historical role of the caste system and the joint-family system, their undesirable effects in retarding social and economic progress must not be under-estimated. The individual was not free in the matter of choosing his occupation, his standard of life, and even his partner of life. Birth fixed his status in society, for good or for ill, from which there was no escape." (*—Jather and Beri*). Similarly, attitude towards women had an adverse effect upon economic progress. The general attitude was to make her subservient. This attitude towards women was best illustrated by two customs,—the *purdah* and *child marriage.*

Conclusion. From this brief discussion of economic conditions, it is easy to conclude that India was both an agricultural and manufacturing country. It produced a variety of products and many of industrial goods were exported. The high quality of goods is indicative of high skills and techniques used by the people. Barring the village structure which had no parallel any where, one can draw an important inference about the rest of the economy: the economy was in such shape as could and should he prior to modern industrial development. In this connection we may cite *Prof. Gadgil.* Summing the characteristic of the Indian economy, he writes that, "The characteristics of Indian economic conditions during the earlier half of the nineteenth century were also found in most countries during their corresponding stage of industrial development."

Q. 7. Bring out the features of Indian economy in the mid-eighteenth century.

Ans. **Features of the Indian Economy in the mid-eighteenth century :—**

Hints. We may summarise the distinctive features of the system as follows :

(1) The Indian village was typically self-sufficient, since the needs of the villagers were limited and since they could very well be met within the village itself.

(2) The Indian village was generally isolated, as the means of transport were highly inadequate and did not allow the villagers to have fruitful contact with the outside world.

( ) Labour was highly immobile; apart from the lack of transport and communication, the caste system and the joint family system did not permit mobility of labour between places and occupations.

(4) Barter system was most common; foodgrains were used as a common measure of value and as a medium of exchange.

(5) Custom was a dominant factor in the life and work of the villagers. Everything was decided according to custom.

(6) Agriculture was a way of living and was carried on for subsistence : the primary crops were food crops.

(7) Rural industries, practised by the village craftsmen, were primarily meant to meet the simple needs of the villagers : coarse weaving, blacksmithy, carpentry etc.

(8) The life in the towns was, however, different from that of the villages. There was more division of life; industries flourished in towns; markets were organised; money was used extensively; banking and credit systems were well organised; and competition and not custom regulated the life and work of the people. Prices of goods, wages, rents etc. were determined by the process of competition unlike in the village where custom was the dominant force.

"Though India is not a poor country, thanks to British rule, it is a country of poor people."

—*R. P. Dutt*

3

ROLE OF BRITISH RULE IN INDIA

Q. 8. Explain the destructive as well as progressive role of British rule in India.

Ans. Naturally question arises—what benefit did India derive from two hundred years of British rule ? Even *Dr. Vera Anstey* admits that "up to the end of the nineteenth century the effect of British rule on the prosperity of the people were undoubtedly disappointing " But does it mean that the situation has changed during the present century ? From a careful examination of the census report of 1931, *Dr. Anstey* comes to the conclusion that "it is difficult to reconcile these figures with a picture of rapidly progressing industrialisation......A well balanced economic life has not yet been attained, the standard of life of the masses remains miserably low." *Prof. Buchanan* is far more outspoken. According to him when one people is governed by aliens, rulers must justify by their performance the holding of such power; from a distant land, the alien from this point of view, the effects of British rule on Indian industrialisation have been disappointing.

R. P. Dutt *writes, "Though India is not a poor country, thanks to British rule, it is a country of poor people."* The natural resources of India are favouable for the highest degree of prosperity. In fact before British ru[illegible]
standard [illegible]
Travellers [illegible]
ted a gene[illegible]
that in se[illegible]
other vegetables, sugar and other sweetmeats etc. could be found in abundance even in small villages. Manouchi, the Venetian physician and the French traveller, Bernier described ecstatically the wealth of India, and specially that of Bengal, "...When Clive entered Murshidabad the old capital of Bengal, in 1757, he observed that the city was as

extensive and populous and rich as the city of London with the difference that there were individuals in Murshidabad possessing infinitely greater property than in London."

The American Technical Mission which came to India in 1942 to investigate the industrial resources of the country found that India possessed in abundance all the resources necessary for industrial development. But the development did not take place. The natural result of this failure was the grinding poverty of the Indian population under British rule. And the situation of this poverty was not a static one. It worsened from year to year following the progressive depending of the agrarian crisis.

Destructive role of British rule in India

In the 1850's Karl Marx fully grasped the destructive role of British rule in India. "...the misery inflicted by the British on Hindostan is of an essentially different and infinitely more intensive kind than all Hindostan had to suffer before." Marx noted that while the previous foreign invaders had left the economic organisation and the social framework of the country untouched and had eventually adopted that organisation and the framework, the British conquest shattered that basis and remained a [illegible] "The destruction [illegible]

[illegible]

of the India under British rule. [illegible] from all his ancient traditions and [illegible] history, but this 'loss of his old world' was not accompanied by any 'gain of a new one.'

History of the Destructive Role. The history of the destructive role of English rule in India has been divided into three periods.

1. Period of Merchant Capital (The Plunder of India)

During this period the destruction of the Indian economy was accomplished, *first* by the East India Company's direct loot; *second* by [illegible] rks; *third* by the introduction of [illegible] code; and *fourth* by the destruc-

[illegible]

During the 18th century, the wealth transported from India to U. K. was obtained much less [illegible] insignificant trade than by the direct plunder. [illegible] pany was to make a profit by [illegible] India which found a ready [illegible] was that in order to get these goods by way of commerce, it was necessa[illegible] U. K, at that stage of d[illegible] problem was sought to b[illegible] this drain of gold and

silver was painful. Soon the Company found that by the military conquest of the country and the subsequent use of force they could get the goods in India for little or no payment. As soon as the Company established its domination in some parts of India, by the middle of the 18th century, the margin between trade and plunder disappeared and the political power was used to obtain the maximum goods for the minimum payment. In 1762, the Nawab of Bengal complained to the Company that its agents had been forcibly taking away the goods of peasants and merchants for a fourth part of their value and had forced them to pay five rupees for goods which were worth but one rupee.

In 1765 when the administration of the revenues passed on to the Company, a new field for direct plunder emerged. Even the House of Commons in 1784 had to condemn the Company as totally corrupt. Of the total revenues obtained from the population in that period, 25% was sufficient [illegible] satisfy the native p[illegible] This excess of th[illegible] and was utilised in the purchase of the goods for exportation to England.

The reckless raising of the land revenues, the criminal neglect of irrigation and public works which had been maintained under previous government, and the destruction of Indian manufactures by a calculated trade policy brought about a rapid devastation of 'Bengal'. Only 20 years of the Company's rule was sufficient to transform a land which was considered "the granary of nations, the repository of commerce, wealth and manufacture in the East" into ruins.

2. Period of Industrial Capital (End of the Monopoly of the East India Company)

From the 1860 India's wealth began to flood England in an ever-growing stream. The accumulation of a vast amount of capital prepared the ground for the advance of the industrial capitalist stage. Immediately after began the great series of inventions which initiated the Industrial Revolution in U.K. It necessitated change in the whole economic outlook. The principles of mercantile capitalism were replaced by the principle of free-trade capitalism. It became necessary to transform India from an exporter of manufactures to an importer of manufactures. This was naturally opposed by the Company which was [illegible]

misgovernment of the Company. Burke compared the rule of the Company with the rule of the tiger. Adam Smith launched a merciless offensive against the entire basis of the East India Company.

By the experiment of the Permanent Land Settlement in Bengal, Lord Cornwallis sought to end the previous arbitrary continual

of land revenue. He also established a new landlord class as the social basis of British rule. These reform measures were necessary measures to prepare the way for the new stage of exploitation by Industrial capital.

Industrial Devastation. The new stage of exploitation of India by the Industrial capitalist class of U. K. dates from 1813 when the British manufactures succeeded in destroying the monopoly of the Company. And this new stage of exploitation was more intense and systematic than the previous haphazard plunder.

Tariff Policy. In 1813, when the monopoly of the Company in trade with India ended, the cotton and silk products of India could be sold in the British market at a price 50% to 60% lower than the price of those manufactured in Britain. It consequently became necessary to protect the later by imposing duties on the value of Indian goods or by positive prohibition. This discrimination was carried on throughout first half of the 19th centu [illegible] cotton and silk products imported into [illegible] goods imported into Britian pa [illegible] of the technical superiority of machine industry, but with the direct State assistance of *one way free trade* and prevention of direct trade between India and foreign countries by the operation of the Navigation Acts that the predominance of British manufactured goods was built up in the Indian market and the Indian manufacturing industries were detroyed. Between 1814 and 1835 British cotton manufactures to India increased from less than 1 mn. yards to over 51 mn. yards. In the same period, Indian cotton piece goods imported into U. K. fell from 1·22 mn. pieces to 0·3 mn. pieces. By 1850 India, which had [illegible] the whole world was importing [illegible] 3 when in spite of the hostile [illegible] were being started in India, [illegible] tely free access to the Indian market. [illegible]

The British manufacturers employed the arms of political injustice to keep down and ultimately strangle a competitor with whom he could not have contended on equal terms. In December 1894, financial considerations compelled the Government of India to impose a general import duty of 5%. This caused a great outcry in Lanchashire and in consequence, the notorious "coun [illegible] was imposed upon all Indian mill made [illegible] acting in accord with dominant [illegible]

The British manufacturing interest were determined to destroy the Indian manufacturing industries and in the last quarter of the 19th century, there was agitation in Dundee against Indian jute manufacturing. [illegible]

Effects of Destruction of the Indian Manufacturing Industries on the Economy of the Country. The effects of this wholesale destruction were disastrous. While in England the ruin of the independent producer was accompanied by the growth of the factories which eventually absorbed them, in India the ruin of the millions of artisans and craftsmen was not accompanied by any alternative growth of new forms of industries. The old prosperous manufacturing towns, Dacca, Murshidabad, Surat and like, were rendered desolate.

Families which had been formerly in state of affluence had been driven from villages for a livelihood. The process continued throughout the 19th century. The 1911 Report recorded a decrease in the number of textile workers by 6% in the preceding ten years, despite the gradual extension by that time of textile manufacturing in India. The decrease was attributed to the almost complete extinction of cotton spinning by hand. The same Report recorded a decrease in the number of metal workers by 6%. Enamelled ware and aluminium articles imported from Europe ... ries and the metal workers left ... larly the induction of cheaply ... the iron and steel industries, and created unemployment for the iron smelting class.

Now these millions of ruined artisans and craftsmen, spinners, weavers, potters, tanners, smelters and smiths, alike from the towns and from the villages, had no alternative opportunity for employment. All crowded into agriculture giving rise to the deadly over pressure on agriculture in India. As the pace of destruction of industries quickened, the overpressure on agriculture also increased.

This overcrowding of agriculture, along with the land revenue system introduced by the Govt has been the basic condition of the poverty of India. The destruction of industries and the consequent overcrowding of agriculture had another very important consequence. India was forcibly transformed, from being a country of combined agricultures and manufactures, into an agricultural colony of British manufacturing capitalism.

Such ruthless and inhuman was the nature of exploitation by the industrial capitalism.

3. Period of Finance Capital

The requirements of 19th century industrial capitalism led to new developments of British policy in India. To open up India more completely for commercial penetration a network of railroads had to be constructed. Roads had to be built. The electric, telegraph and a uniform postal system had to be introduced. Attention had to be given to irrigation which had been completely neglected under the Company. European banking system had to be introduced. A limited education system had to be devised for ensuring a supply of clerks and sub...

nate staffs. This laid the foundation for new stage of exploitation—the finance-capitalist's exploitation of India.

The actual export of capital to India was negligible. The British capital invested in India was in reality first raised in India from the direct plunder of the Indian people and then by so-called Public Debt. This Public Debt was a big hoax. The Company had built up a public Debt of £ 70 mn. by the wars of Lord Wellesley, the first Afghan War, the Sikh Wars and the suppression of the First War of Independence in 1857. But the Company had withdrawn in tribute from India over £150 mn. in addition to the charges for the cost of wars waged by Britain outside India On any correct drawing of accounts, there was thus a net balance owing to India. But when the British Government took over from Company in 1858, they proclaimed that they had also then over a debt of £ 700 mn. from the Company. Then in the hands of the British Government the Public debt rapidly increased. In 1900 it reached £ 724 mn. and by 1929, on the eve of the World war II, it totalled £ 884 mn.

When the country was opened up, private capitalist investment from U.K. to India began to increase; private British banking landed on India. The Presidency Banks Act, 1876, regulated the 3 Presidency Banks under Government protection. In 1921, they were amalgamated into Imperial Bank of India. The foreign exchange banks developed their operations in India. These foreign banks began to dominate finance, commerce and industry under British control. The Indian joint stock banks could make no headway against their domination.

The most important feature of British investment in India was that it was in no way connected with industrial development. About 97% of the British capital invested in India before the World War I was devoted to purposes of government, transport, plantation and finance. Their purpose was 'the commercial penetration of India, its exploitation as a source of raw materials and markets for British manufactures.'

Inter-war Period. Upto the World War I the opposition of imperialism to industrial development in India was open. But the War laid bare the weakness of the whole British strategic position in the East. The British rulers realised the necessity to develop the most elementary basis of modern industry in India. A Fiscal Commission was appointed in 1921 which recommended the adoption of a 'discriminating protection.' In 1924 the Iron and Steel industry secured protection.

[illegible]
rap [illegible]
Bo [illegible]
A further blow [illegible]
The Indian indu [illegible]
damaging to the [illegible]
realised from the fact that the Tata Iron and Steel Company, the leader of the Indian capitalist class, found its 100 rupee shares fallen to 10 rupees and was forced to come to the London market for a loan.

British finance-capital tightened its grip over Indian enterprises during these years after the temporary loosening in the early post-war years. During the crisis of 1929-32 the value of the Indian primary products on which 4/5 of the population were dependent, fell by one-half. Between 1928-29 and 1932-33 the value of Indian exports fell. Yet the heavy payment of tribute interest on debt and home charges, now doubled in weight by fall of prices, and to be maintained. Between 1913 and 1935 no less than 32 mn. ounces of gold were extracted from India. By this gold drain of 1931-37 the slender savings of the impoverished Indian peasantry were scientifically extracted by British finance-capital.

War and Post-War Period During the War further penetration of British and allied capital in India took place. The giant concerns like Lever Brothers, Dunlop, Imperial Chemicals, etc. started their Indian subsidiaries. The number of these "India Limited" companies was daily growing and in the 5 years ending 1943-44 more than 108 such concerns were registered in India covering every kind of industry.

The World War II made it necessary to develop India as the main supply base in the East but even this brought no change in the attitude of Finance Capital in India. Any industrialisation of India was avoided. India was made "supplier of anything and everything; mender, repairer of all things on earth, but maker of none." The establishment of the motor car industry and the ship-building industry was prevented by refusing facilities for import of machinery. Indeed, a certain-measure of increased industrial activity took place in India during the War. But this increase in production arose from the reckless overworking of existing plant and machinery.

"Thus for safeguarding the future interest in India of British [illegible] .te risk of sabotaging [illegible] industries in India. Rather than have an industrial growth, during this whole period India suffered exploitation on a savage scale. Even more than in previous wars, a very heavy burden was placed on the shoulders of the poor Indian people. India was to pay for the raising, training, equipping and maintaining of all land forces raised in India — Soaring inflation and rising prices reduced the real wages of the workers even below the normal starvation wage. In the 'man-made' famine of Bengal 33 mn. people died and the big merchants made a huge surplus black-market profit of Rs. 1,500 mn."

Post-War Development. It the post-war years the British capitalists in their endeavour to retain their economic nomination, had to seek the co-operation of the Indian capitalist class. In 1945 an agreement was reached between Birla Brothers Ltd. and the Nuffield Organisation in England for the manufacture of motor-cars in India. In 1944, a similar agreement was concluded between the Tatas, a pioneer monopoly concern in India, and I C.I., Britain's largest monopoly, for the establishment of a heavy chemical industry in India.

It is clear that imperialism sought to make the future of British finance capital in India safe through a compromise with Indian Industrialists. These deals could in no case lead to an industrialisation of India. India was to be reduced merely to a workshop for assemblage of British manufactured tools and chemicals.

'Progressive' Role of British Rule in India.

Britain, according to Karl Marx, had "a double mission in India; one destructive, the other regenerating." Now we shall see these regenerating aspects of British rule. Marx described England as "the unconscious tool of history" in bringing about Social Revolution in India. Because of the British rule in India the old basis of Indian society that remained almost unaltered through centuries, was destroyed in the 19th contury.

By destroying the old social order, Britain 'unconsciously' laid *down the meterial basis for a new social order. Under British* rule political unification of the country was attained and a modern, centralised administration established. The free-press was introduced. An educated class was built up. More important was the inevitable consequences of development of railways, roads and irrigation. These *developments were made necessary by the requirement of industrial* capitalist exploitation of India But once they were introduced, some sort of industrial and commercial development could not be resisted. [illegible] of the limited industrial progress [illegible] labour based on caste system [illegible] *mpediment to Indian progress.*

[illegible] *imposed in the interests* [illegible] it opened the avenues at [illegible] democratic and popular [illegible] of Indian Nationalism and implanted in the educated class English ideals of parliamentary government and democratic freedom.

Thus British rule in India, although actuated by narrow interests, nevertheless fulfilled the role of "the unconscious tool of history in the *political, social and economic development of India.*

Q. 9. Bring out economic consequences of British rule in India.

Ans. Hints. We may summarise here economicconsequences of British rule in India.

I Shade.

(1) Destruction of traditional handricrafts.
(2) Pressure of Population on land.
(3) Pauperisation of Indian peasantry.
(4) Economic drain.
(5) Growing poverty of the masses.

(6) Differential kinds of colonial Exploitation exploitation marchant capital of industrial capital and of finance capital).

(7) Stagnation and backwardness of Indian industries.

(8) Frequent occurrence of famines.

(9) Change in the character of India's foreign trade.

(10) New Land system (Zamindari System).

II Light.

(1) Rise of new towns.

(2) Rapid expansion of railways.

(3) Growth of capitalist enterprises.

(4) Commercialisation of agriculture.

(5) Poiltial and economic unification of India as a whale.

(6) New social order through. English education which loosened rigidities and constraints of caste system joint family and religious influence and supersitution.

"Here is the extreme present-day example of man, ever increasing in numbers, ruining himself and the earth on which and by which he must live."

—*F. Osborne*

4

POPULATION

Q. 10. Decribe the main trends in India's population between 1871 and 1961.

(Pb. B. Com. 1973 ; Meerut 1973; Bom. 1974 April)

Or

Describe the main trends in the growth of population in India between 1871 and 1941. *(Bom. 1972)*

Or

Describe the main trends in India's population between 1871 and 1931 and give reasons for the same.

(Bom. 1974 April, 1976 April ; 1971 April)

Or

Review the growth of population in India since 1872. Account for the rapid increase since 1921. Assess the future trend.

(Pb. B.A. (Hons.) 1982, Delhi 1976 ; Kurukshetra B. Com. 1978 ; Jodhpur 1980 ; Gorakhpur 1979 ; Pbi. B. Com. 1978)

Ans. "Here is the extreme present-day example of man, ever-increasing in numbers, ruining himself and the earth on which and by which he must live." This is how F. Osborne speaks of the Indian population problem in his book, 'Our Plundered Planet.' In recent years the problem has assumed alarming proportions, but in the historical past the population of India like that of European countries was much smaller than what it ist today. No regular and official census had ever been conducted till 1872, in which year the first official census was conducted followed by another in 1881. Since 1881 we have a regular census in India after every decade.

The figures given on the next page show the increase of population since 1872 when the first official census was taken.

Census year	Population in millions	Increase (+) or decrease (—) over previous decade in millions	% Variation
1872	224·7		
1881	229·0	+4·3	+1·9
1891	235 [illegible]	+6·9	+2·6
1901	235·5	—0·4	—0 17
1911	249·0	+14·5	+5·73
1921	248·1	—0·9	—0·36
1931	275·5	+27·4	+11·04
1941	312·8	—37·3	+13·54
1951	356·8	+44·0	+14·10
1961	439·0	+82·2	+21·50
1971	547·9	+108·9	+24·80
1981	683·8	+135·9	+24·75

From the above date we notice that the rate of population growth was moderate and irregular till 1921. It increased on a smaller rate than other countries. For example from 1872 to 1931, our population increased by roughly 31% whereas during the same period in England, it increased by 77% and in the whole Europe by 60%. The explanation of this smaller and irregular rate is to be seen in the frequent recurrence of famines and epidemics which swallowed a heavy toll of human lives. There was hardly a year in which some calamity did not take place in one port or the other of the country. There was an acute famine in South India during 1876—78 and during 1891—1901, plauge and famine jointly checked the population increase. The decade of 1881—1891 was the only period was free from any serious calamity and so India's population rose by 93·2%. The decade of 1901—1911 had been as one of moderate agricultural prosperity and population would have grown at a very rapid rate had it not been for the attack of plauge and malaria which killed large numbers in Punjab and U.P. From 1911 to 1921, there was actually a decline in population. This was due to the heavy deaths resulting from the influenza epidemic of 1918—19 which took 22 mn. *i.e.* more than double the then population of the Canada. Kingsley Davis has placed the total lives lost influenza of 1918—19 at 20 mn.

Thus we find that the main explanation is that abnormal deaths, used to claim a good many victims in the earlier time. These deaths did not occur or were prevented from occurring during the later period The decline in decade of 1991—1900 was due to severe famines which visited many parts of the country, accompanied by plaugue and epidemics of malaria; *kalazar* and other fevers. During the next decade 1900—10 the weather was much favourable and agricultural output

normal. On the other hand, plague took even a heavier toll than in previous decade and epidemic of malaria fever decimated the irrigated tracts of Punjab and U.P. But these epidemics did not cover as large an area as they did in the earlier decade. In the country as a whole population rose from 23 6 crores to 24 9 crores. In the first year of the decade of 1911 –22 there were many deaths from plague, cholera and public health was much better. The World War I began and malaria. Then for five years there was goode wather and good crops ended During the last 3 years of this decade, economic disorganisation following the War joined hands with two successive bad weathers and extensive crop failures Plague and cholera in different parts of the country, *kalazar* in Assam and malaria in Bengal were greate killers But they were not as significant as compared to the epidemic of influenza which affected the whole country and killed between 1·20 and 1·30 crores of population could be seen at their worst during this decade (1911–21).

Thus we find that prior to 1921, the growth of population was not only slow but also sporadic. In fact, periods of slight increase alternated with periods of actual decline. This is largely explained by recurrent famines and epedemics whose incidence was severe in some decades, but negligible in others.

Rapid Growth After 1921. Then began a new turning point in India's population -a new phase of steady and rapid growth. We hear no longer about abnormal deaths except Bengal Famine of 1943. The natural checks on population growth, *viz.* famines (including famine diseases), epidemic diseases and endemic diseases were either reduced or eliminated. Famine relief organisation had been so highly perfect, along with improvements in transport, that there appeared to be no longer any danger of heavy deaths due to shortages. Epidemics and endemics also had been brought under effective control. Nature also proved too kind. As a result of all this we find that during 40 years (1921–61) population increased by the huge figure of 19 crores, in spite of the World War II (1939–45),the Bengal Famine (1943) and partition of the country (1947).

Thus we find that causes responsible for steady and accelerating population growth were improvement in transport and communication, extension of irrigational facilities, improvement in public health and sanitations, which eliminated dreadful toll of major epidemics.

We maycompare the rate of population growth of India with that of other countries. The mean decennial growth rate was 10 4% in 1921–30, 12·7% in 1931–40 and 13·2% in 1941–50. In the United States this has been 19% in 1910, 13·9% in 1920, 14·9% in 1930, 7% in 1940 and 13·5% in 1950. In the U.K. the rate was 9·6% during these 40 years and 4 4% during 25 years preceding 1350. In France the rate of growth of population was about 6% during 1921—30 and then it fell. The figures for Italy rated in the neighbourhood of 6,7 or 8% for several decades. The population growth rates for Japan

appeared to be running consistently higher than those for India in the neighbourhood of 14%. These comparisons show that our population growth rates were higher than those of the Western Europe; were similar to those of the America and were lower than those of Japan. It is thus true that on the whole there is nothing very abnormal in the Indian rate of growth, considered in terms of percentages. But in terms of absolute numbers, the Indian figures have been staggering because during 1941—50 we have added 4 to 5 million people every year. This increase was high for an old densely populated agricultural country like ours. In case of India the growth was the net result of high birth-rates and high death-rates while these both rates were very much lower in the U.S.A. and Western Europe.

We then entered the decades of unprecedented increase in population. The final totals of 1961 census place India's population at 43·9 crores, that of 1971 census place Indian population at 54 73 crores and at 68·38 crores in 1981. This gives a decennial growth rate of population of 21·5% for the decade 1951—61, 24·80% for the decade 1961—71 and 24·75% for the decade 1971—81. This more quick increase in these decades of 1951—61 to 1971—81 have not been caused by a higher-rate, because the registration data show an almost constant level of birth-rate at 40 per thousand. On the other hand, this net increase in population could only have been due to a steep decline in the mortality rate. Various welfare measures adopted by the Govt. various health development programmes like B.C.G. vaccination, malaria eradication and use of antibiotics and general improvement in medical facilities and intensive epedimic control measures have brought about a large decline in death rates.

Causes of Population Increase

The important causes which increased the population in this country are enumerated below :—

(1) Universal Marriage. Marriage is universal among all sections of our people. According to the census report, 76% of the women of the age group of 15 to 44 years, which is the period of fertility, are married. Not only early marriage is a rule in the masses but also all men and women of marriageable age have another matrimony.

(2) Early Marriage. Early marriage is so common here that most of the girls, say about 85%, are married during the age group of 15 to 20 years when they are the most fertile. This is in gross variance with the practices in the Western countries.

(3) Grinding Poverty. Masses in India are extremely poor and this is also responsible for bringing about higher birth rates. Poor villagers welcome additions for their family in the hope of finding a new wage-earner in the child born. They think that at a very early age the child would start working so as to supplement the income of the family.

(4) Lack of Good Means of Recreation. Lack of any other means

of recreation and a belief that children are a gift of God, make matters worse.

(5) **Tropical Climate.** India is a tropical country where girls reach puberty very early. The joint family system which is now gradually decaying and the institution of polygamy which still continues among certain sections of the people make it incumbent on a girl to be wedlocked at a very early date and the result ultimately is that children go on multiplying.

(6) **No Consciousness of Family Planning.** Our people are not conscious of family planning. They think that the arrival of a child is a divine process which should not be interfered. The use of contraceptives is unknown among the masses.

(7) **Composition of Population.** The composition of the population according to age and sex is also very much favourable to the rapid growth of population.

(8) **High Net Reproduction Rate.** The net reproduction rate in India is very high *i.e.* 1·30. This is abnormally high when we compare to the net production rate in U.K. and France. This means that 1,000 women give birth to 1,300 female children who grow up and complete their reproduction age. This means that each generation is exactly reproducing itself.

(9) **Substantial Fall in Death Rate.** The main cause for this extraordinary growth in our population is not excessive births, it is our victory against death and disease and improving health services which steadily lowered the death rate from 27 per thousand in 1927 to 14 today, while the birth rate has remained about the same. Life expectation has arisen from 32 years into 57 years in 1981. Thus our huge population is multiplying every day and if this goes on our population will reach gigantic proportion by the end of this century.

Future Trend

Substantial Drop in Death-Rate. As hinted above by far the most important factor that has contributed to the very high growth rate of Indian population in recent years has been the sudden and phenomenal decline in the mortality rate. Thanks to the discovery of sulpha and antibiotic drugs like penicillin coupled with vigorous public health drive including malaria eradication campaign and epidemic control, the death rate has fallen from 27 per thousand in 1927 to about 14 per thousand now.

Forces Reducing the Birth-rate. Now we may take into consideration a number of factors which are working in the direction of reducing the birth-rate. These are the industrialization and the consequent urbanization of the population, postponement of the age of marriage, the growing popularity of contraceptives among the middle classes, the increasing employment of women and their improving social status. But they will affect the population growth only, gradually and over a long period.

The birth rate in India is three times the death-rate. Taking these tendencies into consideration, we may expect the Indian population to be nearly 82 crores in 1991 and 95 crores in 2001. The Indian population may double itself by the end of the century.

Conclusion.

Judging the effects of all the factors, operating both for increasing and for checking the population growth it is impossible to resist the conclusion that the *existing set of circumstances favour the continued growth of population* perhaps at an accelerated rate than the present one which already is very high. India at present is passing through a phase of high birth-rate and declining death-rate which inevitably leads to high rate of population growth.

Q. 11. "Viewed over a long period, the Indian economy has been more or less stagnant and has failed to meet the demands of a rapidly growing population" Do you agree with this statement? Give reasons for your answer. *(Rajasthan 1978, Agra 1976)*

Or

Economic development has not been keeping pace with the increasing population in India. Discuss it. *(Agra 1979, M.D.U. 1980, Bom. 1976)*

[illegible] growth.

Our agriculture is in a state of [illegible] cultural development has been mo[illegible] sheer gamble in monsoons. Even t[illegible] in cotton, $\frac{1}{4}$ of Japan in paddy, $\frac{1}{2}$ of U.K. in wheat, and $\frac{1}{4}$ of Hawaii in sugarcane. It is in the subsistence state and has not experienced agricultural revolution. If it is the state of affairs of the major sector of our economy, then how one could expect her keeping pace with population growth.

K. L. Datta in his 'Price Enquiry Report' made out that during 1894—1912, the area under cultivation especially that devoted to foodstuffs, lagged far behind population. Dr. Dubey showed with the help of data that there was a total deficit of 9 to 10 mn. tons of food. Dr. R. K. Mukerjee estimated in his book 'Food Planning for Four Hundred Millions' (1938) that there was a food deficiency for 12% of the population in a year of normal harvests. Mr. Watal in 1938 showed that during 1913—14 to 1935—36, while population grew at about 1% per year, crop production increased 0·65% per year. Dr. Gyan

1. This answer is based on Indian Economics (Vol. 1) by Jathar and Beri Ed. 1949 ch. III pp. 61-63.

Chand estimated that while cultivated area rose by 11%, population rose by about 21% between 1900 and 1934. Dr. P. J. Thomas while writing in Indian Journal of Economics, Conference Number (April 1935) observed that during 1900—1930 population increased by 19%, agricultural output rose by 29% and industrial output by 189%. "He showed that production had been keeping pace with population. If the condition of the masses did not bear that face out, it must be du to some inequities in distribution. But majority's opinion was tha population was running ahead of economic development."

(—*Jather and Beri*)

In 1881 according to the Famine Enquiry Commission, India had an annual surplus of 2 mn. tons of foodgrains. By the time of Great War I surplus had vanished and she had become just self-sufficient in foodgrains. But after the War, deficit in foodgrains began to emerge again. The deficit became pronounced with the separation of Burma from India and India started importing foodgrains heavily. After Partition (in 1947). the deficit increased still further. In 5 years since independence foodgrains worth Rs. 750 crores were imported. "The year 1921 is the 'Great Divide' in Indian population problem, while before that year cultivation kept pace with the growth of population, after it cultivation has been lagging behind and the population has been forging ahead." (*Jathar and Beri*) While between 1921—1951, the population increased by about 44%, the area under plough only rose by 5%. Taking a longer period while population rose by 38% between 1900—1945, there was no increase in the foodgrains' output. Therefore, significant reduction must have taken place in the per capita availability of foodgrains. The serious food problem which the country has had to face all these years is sufficient to prove that the race between food and population has been won by population. No doubt during the last decade 1951—61 owing to great efforts made under plans, the rate of population growth has not been greater than the rate of increase in production of foodgrains. While population rose by about 6% output of foodgrains has risen by over 30%. Thus the earlier decline in availability of foodgrains per head has been halted. But in spite of this and the average annual imports of 35 lakh tons of foodgrains, prices have tended to increase. During 1947—52 India imported foodgrains worth rupees 750 crores. From 1961—1963, 11·7 million tons of foodgrains worth more than 454 crores rupees were imported. During, 1947—81, foodgrains, worth 4,000 crore rupees were imported.

In the industrial spheres, the rate of increase in production has been high in recent years especially because of the efforts made under the Plans, but in most cases we have started from a scratch. If we take industrial index for 1946 as 100; it was 97 for 1947, 108 for 1948 and 105 for 1950. The period between 1947—50 remained stagnant. But after 1950, progress started. If we take 100 as industrial index for 1950, it increased to 133 in 1951 and again to 180 in 1961. During 10 years (1951—61), steel output increased by 100%, cotton by

50%, sugar by 300%, jute by 50%, cement by 300%, coal by 75%, sewing machines by 1300%, fans by 700% and bicycles by 900%.

A strange demographic trend here is that whereas in Western countries the population came down with economic growth, here population has to be brought down to ensure economic growth.

Taking 1960 as 100, index of industrial production was 161 in 1968, 172·5 in 1969, 180·8 in 1970, 196 in 1973 and 250 in 1981.

During the last 3 decades (1950—80) great success in the development field has been attained. For example, the economy has grown at a cumulative rate 3·8% per annum as compared to a rate of less than 1% before Independe [illegible] T [illegible] 25% and food by 80%. T [illegible] ut of 10 children go to sc [illegible] the country have been brought under control. There are now twice as many hospital and dispensaries, thrice the number of hospital beds, double the number of doctors and sixfold the number of nurses as compared to 1947. "But the gains have been liquidated by the population increase. The result is that today the per capita food consumption has gone down from 12 08 oz. to 12·4 oz.; 63 million children are still out of schools and 10 million youth out of jobs. There is a shortage of 74,100,000 houses in urban and rural areas already."

There can be no two opinions that India has not yet been able to reach the take-off stage because of the unprecedented rate of growth of population, particularly in the last decade, imposed on an already huge population at a relatively early stage of her economic development.

Our population is 69·58 crores, today (1982) more than 50,000 babies are born every day. We add to our population more than 1·2 crores people every year. It took thousands of years, until 1966 for our population to reach 50 crores, but at the present rate of growth, our population will be double itself within the next 20 years. The results are obvious. Much of our efforts to improve the living standard of our people through the 5-year Plans are thus being frustrated. Our achievements in various development areas have been significant. Taking 1949—50 as 100, index of agricultural output which has 95·7 in 1950—51, 101·6 in 1955—60, 117·7 in 1960—61, 108·7 in 1965—66, 126·1 in 1967—68, 127·0 in 1968—69, 132·3 in 1969—70 increased to 140·6 in 1970—71 and to 210 in 1978—79. Food production 105 mn. tonnes in 1971—72 again to 95 mn. tonnes in 1972—73, but it increased to 13.4 mn. tonnes in 1981—82. However, because of our swelling population, the amount of food available for each person decreased from 12·80 oz in 1950—51 to 12·10 oz in 1981-82.

During 1982-83 India imported 25 mn. tonnes of foodgrains to tide over deteriorated food situation. The buffer stock had actually been come out.

At the beginning of the First 5-years Plan our unemployment backlog was 35 mn. In spite of 31 mn. additional jobs created by the end of

the Third Plan, unemployment increased to nearly 9 6 mn. in 1966. At the end of Fifth Plan (1978-79) the backlog of unemployment was estimated to be 24 mn. and now (1982) it is 28 mn.

"The growth of population, besides neutralizing all developmental efforts, brings distress to the community, to the family and to the individual" In the words of our Prime Minister, "To plan when population growth is unchecked, is like building a house where the ground is constantly flooded."

Q. 12. Point out how a rapid growth of population becomes a serious handicap in the planned economic development of country like India. *(Delhi, 1973 ; Kurukshetra B. Com. 1973, Pbi. 1978 ; Pb. 1979 ; Bom. B. Com. 1973 ; Pb. M.A. 1973)*

Or

"The growth of population is a menace to national prosperity." Assess the truth of this statement in regard to Indian situation. *(G.N D.U. B. Com. 1982 ; Agra 1971)*

Or

"A rapidly growing population in India retards its economic development." Discuss. *(Cal. Hons. 1972)*

Or

"Economic development is not keeping pace with the increasing population in India." Discuss. *(Lucknow 1978 ; Kerala 1979)*

Or

Do you agree with the view that the rapid growth of population in India stands in the way of economic progress ? Give reasons for your answer. *(Pb. B. Com. 1978 ; Kurukshetra B. Com. 1972 ; Delhi 1980)*

Ans Population Growth and Economic Growth. In order to develop the economy one has to utilise its physical resources. It is the labour force which works on the physical resources and thereby realises the productive potential. The human resources of a country are very important, in as much as they make a positive contribution to the development of the economy. But if the population of a country grows fast, it retards rather than aids the development process The growing population acts as a drag on the economic resources. This is felt in more than one way and the country becomes poorer.

As the clock ticks the passage of two seconds, out comes in India a new child brought into the world with the implicit promise that it shall be provided with food, clothes, shelter, medical care, education and finally employment. The daily output is more than 55 000 babies and the yearly out is 12 million.

It is a geometrical progression. Just to provide primary education of these new entrants 9,00,000 additional schools will be needed every year. Sir Theodore Fox predicts a disaster by the end of the century as there will be only standing space for man on the earth. He points out the need to curb this cancerous growth of human population is much greater in backward Asiatic countries of which India is one.

India's population in 1901 was just 235 5 million. However, by 1921 it had reached 248·1 mn. The next two decades up to 1941 saw an addition of yet another 64·7 mn. In 1961 the population had risen to 439 mn., showing an increase of 126·2 mn. over the 1941 figure. In about 30 years ending 1980 yet another 123 mn. persons have been added to the country's population.

It our population goes on rising at the present rate then according to united Nations projections as applied to India, the population will be 966,000,000 in 2000. It will be 695,800,000 if the rate falls slowly and 666,000,000 only if there is a rapid fall in the birth-rate. Today we are not able to adequately feed the 585,000,000 people in our country. How could we than feed the increasing number, whatever the growth rate be in 30 years time, unless we take to family planning ?

At present (1981-82) India's population is 626 millions and at the present rate of increase per annum the population of Punjab or Sri Lanka is added to the existing population. This prospect of adding every year of a Punjab or Sri Lanka is staggering. If it continues as it had continued so far, it will soon be impossible to provide education and medical and health facilities for the multiplying teeming millions.

Threat that population Poses to India. Very few of us realise that if in every 2 seconds a child is born the result is that 55,000 children are born in a day and totalled up for the whole year, the gross addition to population amounts to 21 mn. The net addition to the population after deducting the deaths amounts to nearly 1·20 mn. which will mean that every year India must find 12,545,300 quintal of foodgrains, 2,509,000 houses, 189,774,000 metre cloth, 4,000,000 new vacancies, [illegible] This is such a great burden on [illegible] country to cope up with it [illegible] happy, much more prosperous, has we been fewer in number. Unchecked growth in the population poses a threat to the Indian economy. In India the rate of growth of population is a curse rather than a boon. Heavy annual increase in population on the top of existing population is a great menace to [illegible] for the planners. The way [illegible] opment of economy will be [illegible]

(I) National Income. Whatever additional income is produced in our economy during the period of Five-year plans is eaten up by the growing population. The National Income increased by 42% in the course of the first two plans but the per capita income increased only by 16% because there had been an increase of 21% in the population of the country during the same period. During the period of the Third Plan, while the average increase in the National income was about 2·5%, the rate of growth of population was also of the same level. The same drama was repeated during Fourth Plan and Fifth Plan, population increased b[illegible] National income grew by 2·75% and 3[illegible] 5 5% and 6% respectively for the Pl[illegible] lopment whatsoever was noticeable in the economy of the country in spite [illegible]

much of foreign aid and other inputs. Now the question is that if the rate of increase in population continues, herein after economic development will be very much put back and whatever we might do, no solution will be possible.

(2) **Agricultural Backwardness.** Population growth raises the population pressure on land which is already over-pressured and so retard increase in the labour productivity. We know well that when the increase in labour is excessive, the amount of capital and the size of land may not be adequate, which will lower the labour's productivity. In agriculture, more than 5% of labour are not productively employed and in Prof. Nurkse's terminology their marginal productivity is zero or even negative. India with world's 2·4% land and 14·6% population cannot welcome the rapid growth in her population if she is to progress from subsistence to market level. Besides, rapid increase in population results in uneconomic unit of cultivation through the process of sub-division and fragmentation.

(3) **Food Supply.** Population requires food to eat and food comes from the natural resources of the country, specially land. The more the people, the greater will be the pressure on land and lesser per capita cultivated area. Per capita cultivated land has been already falling as will be clear from the following table.

Census Year	Area of cultivated land per capita (in cents)
1921	111
1931	104
1941	94
1951	84
1961	75
1971	68
1981	64

In the course of the last few years, foodgrain output has been increasing in India but food shortage and import of foodgrains still continues. This is a clear indication that whatever increase is brought about in agricultural output, it is eaten up by the new uninvited guests that come every year. Even though India is at present producing about 100 million tons of foodgrains every year, the per capita supply or availability is not very encouraging with the result that most of the people in this country suffer from malnutrition and under-nourishment. There has been a rise in the productivity of land through the use of better seeds, fertilisers and irrigation but this has been eaten up by the increased numbers. Thus food barrier is the main obstacle in the way of planned economic development in India.

(4) **Unemployment.** With the addition of population, the labour force of a country has been increasing but at the same time occupation

for the people has been falling short. The number of jobs created at the end of every Five-year Plan has been found to be far less than the [illegible] unemployment at the end
unemployment at the end
Third Plan it increased to 13 million which further increased to 20 million at the end of Fourth Plan and to 24 mn.at the end of Fifth Plan. Thus we find that the number of unemployed people at the end of every Plan is even more that what it was at the beginning. According to Planning Commission's estimate, backlog of unemployment increased from 3·5 mn. in 1951 to 28 mn. in 1981. All this is the result of a rapidly growing population.

(5) **Burden of Unproductive Consumers.** Women, children and old persons form unproductive consumers. In India, the greatest impact of population growth is that the burden of unproductive consumers has been continuously increasing. Increasing population with the growing number of children has added more to unproductive population, because of a high birth-rate more childeren are born. According to the 1981 census, 33·5% of India's population was productive. As against this the number of unproductive consumers was 57 3% of the total population. The dependency ratio of workers to non-workers in India increased from 855 per 1000 in 1961 to 884 in 1971 and to 896 in 1981. An increase of population in children and old men and women brings a greater burden on the economy because money has to be found and spent on their nutrition, medical care, public health and education.

(6) **Capital Formation.** At the present rate of growth of population in India, every year 2·5% increase is registered. If we want the per capita income to be maintained at a constant level national income must rise at the same rate per annum. For increasing the national income, capital investment has to be made. It has been estimated that 3 1 units of capital are required to achieve an increase of one unit in the output. A little arithmetic will show that in order to get an increase of 2·5% per year in the national income, it is necessary to have capital accumulation in the country at the rate of 7·75%. From where will then money come for raising the standard of living of the common man? India is a poor country and there is very little capital per person available. If the population growth goes on at the existing high rate, it will be all the more difficult to attain an increased rate of saving and unless that is done there is no possibility whatsoever of achieving higher productivity and income. Since the capital available for investment is limited, a large part of it will be devoted to the production of essential consumption goods, and capital goods of industries will never be able to get priority. The result would be that there would be recession, slowing down the potential rate of growth and lack of availability of exportable goods.

This problem was stated thus in the Third Plan ; "In the underdeveloped economy with very little capital per person, a high rate of population growth makes it even more difficult to step up the rate of saving which, in turn, largely determines the possibility of achieving

higher productivity and incomes. Moreover, for a given investment large production will need to be devoted to production of essential consumer goods at the expense of investment goods industries, thereby still further slowing down the potential rate of growth."

(7) **Loss of Labour.** It appears that rising population increases the labour force but the fact is that there is a loss of labour both in respect of man-hours and efficiency. High birth-rate means frequent maternity confinements for women and this naturally entails long break from work, both during the maternity confinement and after. Then the fall in the per capita income and consequent lowering down of the standard of living of the people makes them less efficient. Such people are neither physically fit nor mentally alert. Inefficiency results in loss of productivity, which ultimately hinders the economic development.

(8) **Social and Public Welfare.** A large number of children mean more expenditure on their medical care, nursing and education. Normally, the expenditure in education per student is of the order of Rs. 100 per year. 2·5% increase of population per year means that the population in the age group of 5 and 14 would be 21·5 mn. and arranging education for them would mean an additional expenditure of Rs. 213 crores per year. As a matter of fact, so much is required to be done for children that other sectors of economic development will either have to wait or will be neglected.

Thus we find that population growth and its rapid rate is a menace to the economic growth of the country and instead of aiding and taking it forward, puts it backward so that in spite of the best efforts and the maximum input, no concrete results are to be experienced. The adverse effects of rapidly growing population on economic development have been thus summed up : "It aggravates the food problem, worsens the unemployment situation, adds to the number of unproductive consumers keeps down per capita income and the level of living and labour efficiency and militates against capital formation. In all these and many other ways rapid rate of population growth acts like a drag on economic progress and slows down the pace of economic development."

Q 13 Discuss the relationship between population and food supply in India. *(Delhi 1977)*

Or

"Family planning and reduction of population growth is necessary for making India self-sufficient in her food supply." Do you agree? Point out the peculiar state of population vis-a-vis food supply in India.

Or

"Our rising population is the main cause of our food shortage." Comment and elucidate. *(Pb. B. Com. 1977 Supp.)*

Ans. Relationship between Population and Food Supply.

A century and half ago Malthus postulated that there was a unique friendship between population and food supply in the sense that growth of population relatively to land resources led to the operation of law of diminishing returns. Later studies have shown this as wrong.

While in certain countries and in certain periods of history growth of population has slowed down agricultural growth, in other societies and in other periods pressure of population has induced innovations leading to better use of land resources and thus accelerated agricultural revolution. Moreover, it is not merely population which influences economic growth but economic growth in its turn also influences population growth. For example, in a society with a very primitive kind of economy, as in some of the African countries of certain hill areas in India itself, birth-rate is low, death-rate is high and population growth rate is very low. When the economy develops from a primitive stage to the stage of settled agriculture, birth-rate rises but death rate continues to be high and the rate of growth of population still remains rather low as was the case in most parts of India itself until 1920.

It may be recalled that between 1901 and 1910, birth-rate in India was 52·4 and death-rate 46·8 per 1000 and the population growth rate was 0·52% per ; between 1911 and 1920, birth-rate was 48·1 and death-rate was 47·2 per 1000 ; the growth rate being actually nagative (−) 0·03% per year.

In the third stage, when the economy develops further and nutrition levels as well as public health facilities are better, birth-rate continues to be high, but death-rate falls sharply and the growth rate increases substantially as has happened in India between 1921 and 1960. Whereas in the decade 1921 to 1930, birth-rate was 50 8 and death rate 40·4 per 1000 and the growth rate was 1·05% per year in the decade 1951—60, birth-rate was 40·4 and death-rate 20 9 per 1000 and the growth rate was 1 98% per year

The fourth stage is reached, as has been the case in some of the advanced communities in India itself when the income of the people increases substantially and then standard of life becomes high and they take measures to control the birth rate. The result it that the birth-rate falls the death-rate also, continues to be low and the rate of growth of population comes down.

Between 1900 and 1919 India's population increased by 0·25% per year while her farm output increased by 0 53% per year. Between 1920 and 1939 India's population rose by 0 83% per year while farm output increased at a much smaller rate *viz*. 0 20% per year. Between 1940 and 1949 the situation became even acute. Population increased at the rate of 1·32% per year but farm output actually fell by about 0·97% per year Between 1950 and 1960 the trend was completely reversed. Population no doubt grew at a faster rate, *viz*, 1·98% per year, but agricultural growth instead of becoming slower accelerated sharply to as much as 3 5% per year.

We are, however, still in the third stage and the fouth stage seems very far away. Until the twin programmes for agricultural development and family planning make sufficient progress, the third stage is likely to continue. It is estimated that our population which was 684 mn. in 1981 will increase to 950 mn by 2001 if the present trends of birth and death continue.

At the present trends of production, food output is likely to increase by only 2·64 times in 50 years and the real availability of food to decline from 2·033 calories and 51 8 gm. of protein in 1961 to 1,956 calories and 50·4 gm. of protein in 2011 against the nutritional requirement of 2 425 calories and 66 gm. protein per capita per day, representing a short fall of 19% for calories and 23% for protein. *This is a rather grim prospect but it need not dishearten us.* Through appropriate measures for modernising our agriculture, it should not be difficult to meet this short-fall.

Effect of Planned Economic Development.

During the fifty years between 1900 and 1950 when there was no planning in the country food output declined and population increased progressively. But in the 30 years of planning between 1950 and 1980 *although population increased by 2 25%, farm output increased much* faster by as much as 3·3% as compared with (—) 0 97% in the previous decade and 0 20% *between 1920 and 1939. In fact, per capia food*grains supply in India per day has gone up from 13.5 oz. in 1951 to 18 4 oz. ie 1981. This has meant better health for the people.

The problems which India is confronted today are not problems arising from stagnation, but problems which have resulted from trying to force the pace of economic development. There is an impression of worsening food difficulty not so much because production per capita is less, but because people have higher income and are eating and demanding more. The fact that food shortage still persists and we have to import large quantities of food is no doubt a very undesirable thing. One could stop these food imports in one of two ways, *either by going back to the policies of 'thirties' having depression,* unemployment and lower income for the people so that their purchasing power was low, and, therefore, demand for food was also low; or trying to step up food production further commonsurate with the rate of growth of population as well as their rising income so that there is not only enough for everyone but also some surplus "

Our Govt. has rejected the first alternative in favour of the second. The fact that this is not too ambitious a choice is proved by the contrasting experience not merely of India and certain other foreign countries, but also of some of the Indian States themselves. For instance, in the Punjab the rate of increase of population has been high. 2·40% per year between 1952 and 1961, but the people had higher income and were turning to modern agriculture, so that increase *in the rate of growth of farm production* has been as high as 4·9% per year. In contrast in Orissa which has struck to primitive methods the rate of growth of population is somewhat lower, *viz*, 2·1% per year, but *the rate of growth of farm production is much lower, only* 1·13% per year. It is true that density of population per hectare of cultivated area is slightly higher in Orissa *viz.*, 2·3 than in the Punjab *viz.*, 2·2, but a State like Tamil Nadu which again has turned to modern agriculture and where the density is as high as 4·7 persons per hectare, the rate of growth of farm production has been as high as 4·20% per year.

To quote a few other instances of this contrasting experience from India itself, in Rajasthan the pressure of population is the lowest, in Kerala it is the highest and in both the stages production has just been able to keep pace with population. But in Rajasthan there has been an actual decline in productivity and the increase in production is entirely due to an increase in area. In Kerala the increase in production is shared almost equally by increase in area and increase in productivity. Maharashtra, Gujarat and M P. have the same density of population and yet in the first, which is more industrialised, the rate of growth of productivity has been very high.

In these three States of Bihar, Bengal and Assam, for which region a 4-fold increase in farm output has been considered feasible by a detailed study made by an expert team appointed by the F. A. O., the rate of growth has been rather low Of these 3 States the performance of Bihar and Bengal has been better than that of much less *industrialised Assam, in spite of the fact that the latter has most* modern and large scale plantations. In U P. and A.P. also which are predominentely agricultural, growth of farm output has been low.

Other Factors Responsible for the Present Food Shortage and the Ways to Solve it.

This comparison of the relationship between population, land resources and agricultural growth in different states of India indicates that there is no unique relationship between these three, even when the policies are the same and the effort for development is more or less similar. Even where the population pressure is low and the rate of population increase slow, if the people lack necessary skill, education, tools and incentives, they may not succeed in improving the rate of agricultural growth. On the other hand, a population with high density as well as a high rate of grwoth may react to the challenge of growth in a positive manner so as to make full use of the result of science and technology and get larger crops from the limited land resource available today.

The difficulties posed by low productivity of land and shortage of food seemed to be faced more by poor countries which have failed to respond adequately to the challenge of development than by the developed countries where the densit
and technology have already made
duction several times more than what

It is interesting to note that in Japan, the improvement in productivity has been brought about more through improvement of technology than through the increase in inputs. Between 1880 and 1938 farm production in Japan increased by 150% while inputs increased by only 30%. This trend has not only been maintained but even improved upon in recent years.

The reason for the slow rate of agricultural growth, which is being faced by most of the under-developed countries today is to be sought less in the high-rate of growth of population or in the limited availability of land resources and more in the fact that on account of various

constraints these countries have not been able to make effective use of *science and technology for the development of their population* as well as land resources.

The objective of economic planning in India is to solve this. But the difficulty is that some of the measures which are deemed to be adequate at a certain stage lead to diminishing returns after some time and then new measures have to be tried There is, therefore, need for constant innovation not merely in technology but also in administrative procedures.

Steps taken to reduce the Gap.

This is proved by the fact that Government found it necessary to change over from the dispersed agricultural programme of the "Grow *More Food Campaign*" to the *Community Development* approach during the first two Plans and the Package Programme approach during the Third Plan and are now thinking of a new strategy according to which there would be the maximum possible concentration of effort in terms of the high yielding seeds high doses of fertilisers and water and pesticides. ('Green Revolution')

The real problem is to create conditions under which the application of science and technology could increase our yield of crops per acre several fold. And, for this purpose, what is required is concentrated effort not only in the laboratories and the experimental farms but intensive development areas of the type which have been initiated under the I.A.D.P. Programme during the Third Plan and are being taken up under the intensive areas programme proposed for the Fourth Plan.

[illegible] of food [illegible] compound [illegible] compared [illegible]

But, if it is desired to maintain the present per capita level of foodgrain consumption in the face of population growth implicit (compound) annual growth rate in this case would be about 3%.

To achieve some minimum steady improvement of diet, implicit annual growth would be about 4·7%.

Q. 14. ***What is the importance of the human factor in the economic development of a country? On what factors does the population resources of a country depend? Give your answer with special reference to India.*** *(Delhi B. Com. 1978)*

Ans. Importance of Human Factor. Population of a country is a factor of main importance for the economic progress of the people. *The quality of people and the densit* [illegible]
determine the level of civlization, the [illegible]
of internal markets, capital formation, [illegible]
and composition of foreign commerce, per capita income and standard of living. Many social and economic problems of a country assume a new meaning when seen against the background of its popu-

A country's capacity to produce wealth is measured not by the total number of its people but by their total number multiplied by the number of mechanical slaves at the service of each of them The productive forces of a country consist of human beings assisted by machines and mechanical power. With the harnessing of the sources of mechanical energy the modern man has been able to increase his productive capacity largely. "It is said that every American is assisted by 100 mechanical slaves; every Englishman by 60; every German by 40; every Russian by 30 and every Indian by one mechanical slave. A country's capacity for the production of wealth has a direct relationship to its reductive forces, both human and mechanical."

The impact of modern technology has snatched the sheer population numbers of their prowess and weight that they were known to have before the Industrial Revolution. It has transformed the people of some countries into giants and those of other countries into pygmies so far as the production of wealth is concerned. It has been calculated that on the basis of its productivity capacity, American population is equal to 20 billion. In other words, it can be said that for the prodution of wealth, America is populated by 20 billion people, whereas India is populated by only 548 millions. To put in another way, it may be said, that India's 54·8 crores of people are equal to 1·2 crores of Russians, 9 crores of Germans, 6 crores of Englishmen and 3·6 crores of Americans. Of course, these figures represent the total productive capacity of our population in comparison with some of the progressive countries of the world and by no means its total capacity for consumption of food and other articles.

There is a direct correlation between population numbers and their per capita income. The per capita income of people of a country is the highest when the size of its population is the optimum. The optimum population is the limit of population in a country at a given time and under the prevailing social conditions [illegible] capita income is highest. Inevitably a[illegible] optimum population is accompanied by [illegible] income of the people.

There has been very little increase in per capita incomes indicating the tremendous growth of population. The per capita income for 1964-65 at constant prices shows an increase of less than Rs. 16 at Rs. 317. The per capita income in 1-63-64 was Rs. 301·1 and Rs. 293 2 in 1960-61. Per capita in 1965-66 was 310 rupees, it was Rs. 308 in 1966-67 Rs. 329 in 1967-68, Rs. 330 in 1968-69 and Rs. 339 in 1969-70, Rs. 340 in 1970-71, Rs. 343 in 1971-72 and Rs. 337 in 1972-73, Rs. 352 in 1973-74. It increased to Rs. 695 in 1981-82.

It has been calculated that in India 33% of the total national income goes to 5% of the population, the next 33% to 35% of the population and the last 33% to 60% of the people. From this it is clear that only about 40% of the people in India are well-fed and can enjoy at least the semblance of a civilised life. 60% of the people are below the poverty line. 40% people are moderately well off. This is equivalent to the total population of the U.S.A. That means

constraints these countries have not been able to make effective use of *science and technology for the development of their population as well* as land resources.

The objective of economic planning in India is to solve this. But the difficulty is that some of the measures which are deemed to be adequate at a certain stage lead to diminishing returns after some time and then new measures have to be tried. There is, therefore, need for constant innovation not merely in technology but also in administrative procedures.

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The real problem is to create conditions under which the application of science and technology could increase our yield of crops per acre several fold. And, for this purpose, what is required is concentrated effort not only in the laboratories and the experimental farms but intensive development areas of the type which have been initiated under the I.A.D.P. Programme during the Third Plan and are being taken up under the intensive areas programme proposed for the Fourth Plan.

Between 1970 and 1980 the compound annual growth rate of food grains production was 4·2%, but between 1960 and 1970 the compound annual growth rate of foodgrain production was 3% only as compared with 4% during the period 1950 to 1960.

But, if it is desired to maintain the present per capita level of foodgrain consumption in the face of population growth implicit (compound) annual growth rate in this case would be about 3%.

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that the decent element of our population is equal to the population of the U.S.A. but in addition we have a large dead weight of the population which the U.S.A. has not. That makes our going heavy on the road of progress and prosperity.

The population carrying capacity of an economy is also determined by the standard of living of the people. In a given stage of economy's development, the population carrying capacity is higher when the standard of the people is low; and it is lower when the standard of living is high. In other words, a country can support a large number of people at a lower standard of living, and a smaller number of people at a higher standard of living. For example, both China and India [illegible] by reducing the standard [illegible] se of both these countries, [illegible] he living standards of the people are to be improved.

India's vast potential resources are awaiting exploitation and India is an underdeveloped country because its rich natural resources have not yet been fully utilised. We are just on the threshold of industrialisation. But it must be recognised that even when our natural resources are fully utilised, it will not be possible for us to support our present population at a high living standard especially if the population increase continues unchecked. India cannot provide a high living standard to an unlimited number of people. No country can do it. [illegible] the world if we want to give our [illegible] of a civilised existence, not to [illegible] high standard of living for the masses can come only after the population has been reduced to a manageable size.

Q. 15. Explain the changes that have occurred in the occupational distribution in India since 1901. *(Kuk. B. Com. 1977, Pb. M.A. 1976)*

Ans. The 1981 census reshuffles the distribution of Indian working force among various occupations for earlier years also. The changes in the total working force, in their proportion to the total population and the working population can be witnessed from the following table :—

Year	Total working force (in crores)	Working force as a % of total population	Working force as a % of population of working age
1901	11·14	46·61	78·95
1911	12·11	48·07	79·81
1921	11·79	46·92	78·65
1931	12·96	43.03	71·95
1951	13·95	39·10	68·49
1961	18·84	42·98	78·99
1971	20·36	33·54	81·00
1981	26·52	34·40	82·00

We find that total working force of India has increased at a very slow speed. In the years 1931 and 1951 there was an increase but much less than the increase in the total population or population working. It is to be seen that while population has gained 83 points in 60 years, the population of workable age has gained only 60 points and active working force only 59 points during these 60 years. In other words, the proportion of people of workable age and that of working population have been lagging behind general total population.

However, the year 1961 makes a departure from the past trend. Both percentages increased. This may be partly a result of the alteration in the definition of workers adopted at this census. But in view of the fact that as there has been an increase not only in female workers but also male workers, it may be believed that apart from a definitional increase, after all there has been some real increase in 1961.

We may divide the labourers among males and females. Broadly speaking, the latter forms about 33% of our total labour force. In 1961, female workers aggregated 59·4 mn. and of total working force of 188·4 mn. The number of female workers was placed at 37·3 mn. in 1901 (out of 111·4 mn.). It was 41·8 mn. in 1911 ; 40·1 mn. in 1921 and then fell to 37·0 mn. in 1931. In 1952 again there was some rise to 40·4 mn. In 1961, there was almost a 50% increase in the number of female workers. This seems to be partly definitional. A large part of these female workers is busy in farming either as cultivators helping the male members or as labourers. In the 1961 census the number of female cultivators and of female agricultural labourers has been placed at 33·1 mn. and 14·2 mn. respectively. These two categories form about 80% of the female working force. The other two activities which provided employment to a good number of female workers were household industries and other services (each giving employment to about 4·5 mn. female workers or about 7·5% of such workers). Broadly the number of female workers remained more or less stationary between 1901—1951. As the number of total workers increased over these years, the population of female workers to the total labour force fell. The 1961 census gave a different picture. It recorded a considerable increase in the number of female workers.

Male workers were placed at 74·1 mn. in 1909. The number increased to 79·6 mn. in 1911 and then declined to 77·8 mn. in 1921. In 1931, it was little higher at 83 mn. In 1951 there was a marked increase to 99·1 mn. and a substantial increase to 129 mn. in 1961, and finally a very large increase to 148·7 mn. in 1971. As is natural, under Indian conditions a good part of female workers are busy in agriculture as cultivators or labourers. These taken together made about 55% of the total male working force in 1961 about 57% in 1971. The other important fields of employment were other services (11·7%), household industry (5·7%), manufacturing (5·56%), and trade and
(5·29%).

We experience a change in both male and female
1901. This was minor up to 1931 and then significant and

1961. The increase was more in case of male workers than in case of female workers excepting the year 1961, which registered a faster increase for female workers. A great proportion (10%) of female workers was engaged in agriculture, while employment pattern of male workers was a little more diversified. The distribution of country's working force in various industrial categories was important for knowing the nature and stage of its economy. The 1961 census distributed the workers in categories shown in the following table.

% Distribution of Workers by Industrial Categories.

Categories	1901	1931	1961	1971	1981
1. Cultivation	50·6	45·1	52·8	42·9	42·0
2. Agricultural labour	16·9	24·8	16·7	25·8	24·5
3. Mining, fishing etc.	4·3	5·2	2·7	2·8	2·9
4. Household industries	——	——	6·4	6·5	6·9
5. Other manufacturing industries	11·7	8·9	4·2	4·4	4·9
6. Construction	0·8	1·0	1·1	1·2	1·6
7. Trade and commerce	6·1	5·6	4·1	4·2	4·8
8. Transport and communication	1·1	1·0	1·6	1·7	1·8
9. Other services	8·5	8·4	10·4	10·5	10·6
Total	100	100	100	100	100

(It may be remembered that household industries are not shown as a separate item under 1901 and 1931 census. The workers engaged in them are included under 3 and 5).

Agriculture (including 1 and 2) is the most important sector, followed by other services and household industries. In spite of fast expansion in employment opportunities in manufacturing industries, in trade and commerce, their proportion in the total has fallen because they have not expanded as fast as the increase in working force. This pattern does not show any substantial change over the 60 year period. The population of agricultural labourers in 1961 was very much lower than in 1931 and also in 1951 (not given in the table above). It was 1·97%. This has been because of the land reform policy of the Government as also drift of these people to other new and expanding activities.

The first 3 categories of the above table may be taken to represent the primary sector, next 3 the secondary sector and the last 3 tertiary sector. The proportion of these 3 sectors has not shown any significant change in Indian economy. The share of the 3 sectors was 71·8%, 18·6% and 15·6% respectively in 1901. In 1911 it enchanced to 78 9%, for the primary sector and fell to 11·1% for the secondary sector and 10% for the tertiary sector. Then it was more or less cons-

tant upto 1931. After that there has been some fall in the proportion of the primary sector and an increase in the proportion of the other 2 sectors. In 1961 the %ages were 72·3 ; 11·7 and 16·0 respectively. Mr. H S. Swamy of the Registration General's Office has concluded, "The rate of change of workers in the primary sector decreases at a slow rate while there is a gradual but progressive increase in the rate of change of workers in the secondary and tertiary sectors."

In our employment pattern agriculture is the most important *sector. Other sectors* which are predominant in other countries have not yet made much progress.

But within the agrarion sector the situation is depressing. It is really a matter of pity that in spite of the proportionally much larger employement of 70% sufficient food for our population is not being produced in the country and we have to depend upon imports. On the other hand, only 12 8% persons in U.S.A. produce sufficient food for [illegible] which they export to other countries. [illegible] Here majority of the people are [illegible] ints out to the very deplorably low standards of agriculture in India. Its major sector, namely agriculture, is also very backward.

The two features which emerge from the above occupational distribution are : (1) high rate of dependence or low proportion of working population and (2) a very high percentage of active population engaged in agriculture. Both these taken together contribute to our low productivity. But these two are the result of our backwardness. The high population of infant population and the poor opportunities and conditions of work keep the proportion of active population low. As birth rates fall and as economic growth takes place, the proportion *of active proportion will go up. Further as we pass from poverty to* riches there will be a sharp decline in the proportion of population engaged in agriculture and a simultaneous increase in the proportion of population engaged in manufacturing and services. This has happened in all countries where economic growth has occurred. It will certainly happen in our country too.

In the end we may conclude that the occupational structure in India has not shown much change. Whatever change has taken place, does not fit into the theory of economic growth. The only reason for this it that the growth of various sectors of the economy has lagged far behind the population growth.

"The best general test of the industrialisation of a nation's life under modern conditions is the rate and character of growth of its towns."

—*Dr. Clapham*

5

THE GROWTH OF TOWNS

Q. 16. Review the trend of Urbanisation in India in the beginning of 20th century. Would you recommend it? Account for the slow growth of towns.

(Delhi B. Com, 1978, Pb. B. A. Hons. 1979, 1977, Pb. M. A. 1980, 1977)

Or

State the main features of the Urbanisation process in India since 1941 and indicate their implications for planning and economic policy.

(I.E.S. 1976, I.A.S. 1976)

Ans. Dr. Clapham has very correctly remarked, "The best general test of the industrialisation of a nation's life under modern conditions *is the rate and character of growth of its towns." Again Jather and* Beri have observed correctly "Civilisation and progress have always originated in cities, from which they have radiated in the countryside, which, left to itself has seldom displayed the capacity for progressive development." Prof. Kingsley Davis has in a recent seminar on 'Urbanisation in India' (held at Berkeley, California) pointed out, "It is not possible to have industrialisation without urbanisation."

Urbanisation During British Rule:

The first reliable census for the whole India was conducted in 1872. [illegible] pulation was [illegible] correctly the [illegible] ning of the [illegible] in the 19th century there was a great increase in the population of port towns like Calcutta, Madras, Bombay and a few other places: but, on the other hand, there was certainly a great decrease in the population of towns like *Dacca, Lucknow, Murshidabad, Tanjore etc.* Thus, on the supposition that the urban population of India was not in any way growing between 1800 and 1872, Dr. Gadgil concludes that the %age of the urban population in the beginning of the 19th century was roughly 9 to 10. The significance of this high %age of the urban population will become clear

if we ex[illegible] in Western countries towards [illegible] that in [illegible] only to Britain[1].

But in the 19th century, the proportions of urban population to the total remained stationary and consequently, India lost her lead in urbanisation.

Year	Rural	Urban	No. of Towns
1872	91·28	8·72	—
1881	90·59	9·41	—
1891	90 54	9·46	—
1901	90·12	9·88	1,910
1911	90·58	9 42	1,913
1921	88·70	11·30	2,050
1931	87·90	12·10	2,261
1941	86·10	13·90	2,427
1951	82·80	17·20	3,057
1961	82·20	17·80	2,690[2]
1971	80·20	19·80	2,921
1981	80 00	20·00	3,068

While the proportion was 8·72% in 1872, it became 9·41% in 1881, 9·46% in 1891, 9·88% in 1901, 9·42% in 1911, 11·3% in 1921 and 12·10% in 1931, 13·9% in 1941. Urban population has grown just a little more quickly, if at all, than the total population of the country. This stands in marked contrast with what happened in U.K. and other Western countries. In England, the towns in the South decayed, but their decline was nothing in comparison with the rapid rise and growth of more populous urban industrial centres in the North. In *India the two opposite tendencies of the growth and decline of towns just balanced each other.* It is only in recent years that the tendency to urbanization has gained the upper hand. It becomes necessary to examine the forces that had been acting on the growth (and decay) of towns in India during the later decades of the 19th century and the earlier decades of the 20th century.

Factors Promoting the Growth of Towns.

(1) **Railway Construction.** The most important factor making for the growth of towns in modern India is railway construction. [illegible] emergence of new commercial [illegible] significance of some of the old [illegible] Calcutta, Nagpur, Kanpur, Delhi, [illegible] Rangoon are the examples of the new commercial towns.

1. England and Wales had 21%, France, 9 5%, U.S.A. 3·8%, Russia 3 7% urban populations.

2. This decline in the number of towns was due to the different [illegible] adoped by the two censuses.

But if railways tended in this way to enhance the significance and the population of some towns, it had also an opposite effect. many old prosperous towns which were not connected by railways lost their significance.

(2) **Industries.** The second most powerful factor making for the urbanisation is the rise of new industries or further growth of old industries. But while in other countries the growth of industries has been responsible for the overcrowding of vast masses into big towns, in India its influence has certainly not been as strong. There are very few towns and cities in India at the present moment which are creations of the new industrial era. Some leading industries have converted villages into towns and [illegible] Sholapur and Hugli owe [illegible] importance to their stapl[illegible] Kanpur owes a substantial [illegible] mills an[illegible] exception is Jamshed[illegible] in Chhota Nagpur [illegible] is entirely due to the establishment and activities of the Tata Iron and Steel Company Limited (TISCO). But these are only exceptions. The influence of industrial growth on the growth of towns has not been considerable in India as shown by the fact, that in 1907, in 56 Indian cities having more than a lakh of people, only 30% of the inhabitants were occupied in industrial pursuits. The non-industrial character of the cities is also shown by the fact that not less than 22 of these 56 cities owed their importance to non-industrial or non-commercial activities.

(3) **Growth of Trade and Commerce.** Growth of trade and commerce has been the cause of the emergence of many important towns. Almost all the towns in India owe their growth at least partly to this factor.

(4) **Famines.** Frequent famines in the 19th century and the first half of the 20th century dwindled the rural side and increased urban population. During famines, as there is no work in the fields, the population goes to the towns and cities in search of relief, alms, and employment. Dr. Gadgil writes that in the great Rajputana famine of 1868, the population of adjoining towns like Agra, Delhi etc, was almost doubled. The great Bengal famine of 1940 witnessed such a movement on a still larger scale. Of course, most of the people who flocked into towns in times of famines returned to their villages as soon as they could find any form of employment. But it also happened that a part of this inflow of population was permanently settled in the urban occupations.

(5) **Landless Labourers.** The emergence of a class of landless labourers was a result of frequent famines, the gradual dispossession of old peasant proprietors, and the rapid destruction of village industries reducing the artisans into wage-earners. The creation of this class has promoted urbanisation to a great extent, for the landless labourer who has no attachment for his village home permanently migrated to the towns in search of a 'better' employment.

(6) **Administrative Centralization.** Administrative centralization during British rule in the 19th century is another great factor which made for growth of towns. The British policy of administrative centralization, the establishment of local, civil and criminal courts, the present revenue and police organization, and operation of the ryotwari system the paralysed the large degree of local autonomy that the Indian villages formerly enjoyed. "Brand new creations such as the district and taluka boards replaced the effective Self-Government of the village. These changes increased the importance of the taluka town in comparison with the village, of the district towns in comparison with the taluka towns, of the provincial headquarters in comparison with the district headquarters, and so on."

(7) **Facilities and Attractions.** Economic and political considerations also induced the educated middle class to settle in towns, as facilities for secondary and higher education were only confined to the towns, for the sake of education of their children. Similarly, the urban life has its attractions for the rich as well as for the men of moderate means. The wealthy landlords in towns and the villages suffered from the peculiar evils of absentee landlordism. It seems that since the number of wealthy persons is very small, the effect of this movement has been negligible. But this is not true. The numerical effects may be insignificant but the economic and psychological effects of the movements are disastrous. After the exodus of the landlord, the educated middle class and men with ambitions and drive, the village was left in the undisputed grip of poverty, inertia and ignorance.

Factors making for the decline of towns.

Side by side with this tendency towards urbanization we shall now note the forces tending towards depopulation of the older towns. These are as follows:

(1) **Diversion of Trade Routes.** The diversion of trade routes, consequent upon railway growth has been the most important factor in bringing about the decay of towns which previously owed their importance and prosperity to the river and road traffic. Mirzapur was *an important trading centre. On account of its position on the Ganges* all the cotton imports of North and Central India has to pass through Mirazpur down the Ganges. But with the construction of railway lines along the Ganges the river traffic lost much of its importance, and Mirazpur began to decline. Similarly, Saugor which was a very important trade centre before the railways expansion lost importance when it was left alone away from the main railway line.

(2) **Change in River Course.** Sometimes, changes in trade routes were also caused by the abrupt changes of the river courses. Some old towns in Bengal basin were ruined because the Ganges continuously changed its course.

(3) **The Decline of Urban Handicrafts.** The decline of urban handicrafts following the disappearance of the royal courts, has also brought about a fall in the population in old Indian towns like Dacca, Malda, Santipur, Murshidabad, Amritsar and Tanjore." "As the

craftmen lost their occupation, they turned to farming which alone could offer them an opening. A large number of old towns were depopulated. Dacca, for example, with its famous muslin industry, suffered a rapid decline. The population of Dacca fell from 45,000 to 30,000. The same story was repeated in Malda (famous for its silk industry), in Santipur (famous for its muslin), in Amritsar (famous for shawl) and in numerous other old industrial towns.

In some cities the establishment of new industries assisted to regain their importance. Dacca, after its rapid fall till 1870, staged a heroic recovery when jute cultivation became popular in Bengal and numerous jute presses were established near Dacca. Since then, Dacca made rapid progress. Another example of such a recovery is that of Amritsar where the decline of the shawl industry was compensated for by the growth of the carpet industry in the 1890's. However, this recovery was short-lived.

(4) Epidemics. Epidemics have also acted against the development of cities. Diseases, plague and cholera periodically visited urban areas and drive the population away from the congested urban areas to the open country-side. An epidemic of plauge, for example, killed a large number of the urban population in the Deccan, C.P. and Bihar, and drove away such a large number of people from the cities that the proportion of the urban population declined slightly during the first decade of the 20th century.

(5) Insanitary Conditions. Insanitary conditions and lack of housing accommodation have also prevented the growth of towns by keeping away a good deal of potential labour supply from these towns.

(6) Availability of Urban Amenities. The present day availability of urban amenities in many of the villages, has to some extent lessened the movement of population to the towns.

Thus when we take into account the two opposite tendencies of *the growth and decay of towns, we notice the effect of* the two opposite tendencies almost evenly balanced. Only in recent years the tendency towards urbanisation has gained slightly the upper hand. This stands in marked contrast with what happens in a country during the period *of the Industrial Revolution.*

Growth of Cities at the Expense of Smaller Towns.

Let us now turn to the question of the growth of the cities at the expense of the smaller towns Available data do not show any spectacular development. After a thorough examination of the ages of population of different classes of towns to the total urban population, Dr. Gadgil concludes that "between 1872 and 1921 there has been no major change except that during the decade 1901-11, nearly the whole of the rise in the urban population of India took place in the group of towns of 1 lakh inhabitants and over." This process of growth in popul [illegible]
Britis :

(1) "The biggest single cause of the greater increase in the bigger cities than in the smaller towns is the tendency in India of *concentration of trade in bigger cities.*" Trade has better marketing facilities in cities, and it thus attracted from the surrounding small towns and trading centres.

(2) As the *increase in the rate of wages in* the smaller towns lagged behind the increase of wages in the cities and bigger industrial centres, there was an exodus of the artisan population from the smaller to the bigger towns.

(3) *The centralisation of administration* led to the growth of the district headquarters at the cost of smaller towns in the district. This factor has been very important in India because unlike in other advanced countries here a significant proportion of urban population is dependent on revenue, administration of justice, etc. for their livelihood. As for example, a considerable part of the increase in the population of Dacca in the beginning of this century was due to the creation of the new province of Eastern Bengal and Assam with Dacca as its capital.

As we see here in the above table that during 1971—1981 there has been no significant increase in urbanisation. The increase was only 0·20% (19·80% to 20·80%). The reasons for this slow progress have been analysed in the 1981 census.

(1) An analysis of the Plan outlays does not encourage large expectations since much of the investment has been in the rural sector of Indian economy.

(2) Incomes of local bodies governing cities have not enhanced upto investment providing amenities to attract rural people.

(3) The investment in construction and housing in towns has not been of a high order.

Conclusion. No doubt India unlike England, Germany and U.S.A. has less people in urban areas. "But there is another side of the picture. India is tropical and agricultural country. Hence we cannot advocate piling up of people in big cities blindly following the West. We should have medium-sized, open and airy towns. We must not, indeed, overlook the perils associated with vast aggregations of population into a few mammoth cities like London, New York, Bombay and Calcutta, but the rise of medium-sized towns scattered all over the country would afford all the economies of large-scale production and amenities of town life, while avoiding the dangers to moral and physical health associated with modern slums. We need urbanisation of rural areas and ruralisation of urban areas."

"Close on the heels of decline of Indian handicrafts and the dislocation of her economy, came another catastrophe which prostrated the country and made her a land of poverty and misery. This was the series of famines that followed one another in quick succession in the nineteenth century and ravaged the country." —*Dr. Arokiaswami*

6

HISTORY OF FAMINES AND FAMINE POLICY

Q. 17. Give a brief history of famines since 1877—78.
(*Pb. M.A. 1976, Pb. Hons. 1978*)

Or

Give a concise and connected history of famines in India from 1860—1914 and indicate main stages in the evolution of famine, relief policy in the country. (*Pb. M.A. 1978, 1974*)

Or

Describe the measures taken by the Govt. since 1878 to prevent famines and grant relief to the people in times of famines. (*Bom. 1972*)

Or

Describe famine policy of Govt. in India between 1857 and 1914.
(*Bom. 1978, 1974*)

Or

Divide the years between 1850 and 1939 into years of famines and normal years and account for the charge with regard to famines over these years. (*Bom. 1977*)

Or

Trace the history of famines in India. Examine briefly the Famine Policy of the Govt. of India. (*Kuk. Hons. 1977, Pb. M.A. 1976*)

Ans. Dr. Arokiaswami in his book, 'The Modern Economic History of India' writes, "Close on the heels of the decline of Indian handicrafts and dislocation of her economy, came another catastrophe which prostrated the country and made her a land of poverty and misery. This was the series of famines that followed one another in quick succession in the nineteenth century and ravaged the country."

India had been subjected to famines from times immemorial but there is no strong evidence to say whether the famines were frequent or

rare. India being an agrarian country, in the absence of irrigation, failure of monsoons leading to failure of harvests have had resulted in serious famines. The lack of transport and communication and the [illegible] ult if not impossible to [illegible] he famines brought in [illegible] ed heavy toll of deaths. [illegible] between. But during the British rule they have been very frequent.

Famines under the East India Company (1757-1858)

During this period 12 famines visited India of which 4 were very terrible. The first famine in this period occurred in Bengal and Bihar as a result of the failure of monsoons and the maladministration of the East India Co. It is calculated that more than 10 mn. people died during this famine. This was followed by a famine in Madras in 1783: in N. India in 1784; in S. India between 1790-92; in Bengal in 1803; in N. India in 1804; in Madras in 1897; in Guntur in 1833; in N. India in 1837 and in Hyderabad and Madras in 1854.

There was no uniform system of famine relief or prevention. Different experiments were tried. Thus in the S. Indian famine of 1790-92 Govt. provided relief to the masses. During the Bengal famine of 1803 Govt. imported grain, fixed prices, and banned exports etc. Again during the Northern India' famine of 1804 the Govt. took steps like remitting land revenues, giving bounty on the import of corn and granting loans and advances to peasants. The Govt. policy during the Agra famine of 1838 was that while the Govt. provided work to the able-bodied, the relief of the infirm was left to private charity. But it may be written in general that the East India Co's ignorance of local conditions and the lack of communication and transport caused heavy loss of life.

Famines under the Crown upto 1880.

Northern India Famine of 1860. The first war of Independence of 1857 and the acts of vindictiveness told heavily on agriculture and in 1860 when there was a failure of rains, it was followed by a famine in Northern India. It was most severe between Delhi and Agra. Large relief works were begun to give employment. The Govt. spent Rs. 27 lakhs on relief. This famine was followed by a famine enquiry by Colonel Baird Smith who recommended permanent settlement in order to prevent famine.

Orissa Famine of 1866. In 1866 a very severe famine visited Orissa. It passed through two stages. The drought of 1865 caused the loss of 66% of the rice crops. Then came the heavy rains of 1866 which again destroyed the crops. Though the Govt. was warned, but no preparations were made. The seriousness of the situation was felt only by May 1866 when the monsoon made it impossible to transport food by sea. There was heavy mortality, *i.e.* a 33% of the population perished. By November 1866 extravagant relief was ordered and Rs. 95 lakhs were spent on relief. The total cost including the loss of revenue was Rs. 1.5 crores. The Campbell's Committee which was appointed to

investigate, opined that the intensity of the famine was due to the failure to forecast developments and also due to the lack of transport facilities.

Rajputana Famine of 1868-69. In 1868-69 Rajputana and adjoining districts of North-west Province suffered from a famine which caused heavy loss of life. Fodder scarcity was so acute that majority of the cattle in Rajputana died. It was during this famine that Sir William Muir issued the famous order that "Every district officer would be held personally responsible that no death occurred from starvation which could have been avoided by any arrrangement on his part of that of his subordinates."

Bengal and Bihar Famine of 1873-74. There appeared the Bengal and Bihar famine of 1873-74. The Govt. dealt with it very effectively and it may be said to the credit of the Govt. that there was no death. Relief was extravagant, village inspection was started, export of corn was forbidden and Govt itself imported large quantities of corn. The Famine Commission that was subsequently appointed held that extravagant expenditure was owing to the absence or proper agricultural information.

Whole of India Famines of 1876 to 1878.

During 1876 to 1878 a series of famines covering the whole of India appeared. The major portion of the Presidencies of Bombay and Madras, Mysore and Hyderabad were affected during the beginning and in the second year the C.P., the U.P. and parts of Punjab were also affected. The country was not ready to face the situation and many people perished. Relief works on a large-scale were started. This famine was so acute that the *Famine Commission* of 1880 described it as the worst experienced since the beginning of the British rule in India.

T[illegible] *Famine Commission* [illegible] This Commis[illegible] to provide to the affected people, the means of earning their living. They recommended :—

1. In the relief works employment should be provided to all the able-bodied people and they should be given wages enough to live on doing reasonable work.
2. People unable to work should be given gratuitous relief in the poor houses.
3. Constant village inspection should be resorted, to ensure careful control of gratuitous relief in villages
4. There should be no interference with commerce.
5. Land revenue should be remmitted and loans should be given to land-owners.
6. In times of draught, facilities should be provided for migration of cattle to forest areas.

Famines after 1880

Mild Famines during 1880—1896. During the period 1880—1896 there was relative agricultural prosperity and there were no serious famir

nes, though there were a few famines of mild intensity in certain regions e.g., the scarcity in Bengal (1884-85)—scarcity in Orissa (1889)—scarcity in Madras and Central Provinces (1890-95).

Famine of 1896-97.

In 1896-97 acute famine visited N. India, Bengal, Madras and Bombay. The Govt. took steps to give relief to the masses. The Govt. gave loans to farmers, remitted revenue and opened relief works. It cost to the Govt. Rs. 7·25 crores.

The Famine Commission of 1898 under the Chairmanship of Sir John Lyall opined that the success attained in the relief of distress was far greater than recorded in famines that were comparable with it, and that this result was attained at a moderate cost. Its recommendations were the same as those of the earlier Commission and different only in details. It *made special recommendations for the relief of aboriginals,* weavers and hill tribes. It also recommended a more liberal wages and free extension of gratuitous relief.

Famine of 1899—1900.

The famine of 1899—1900 visited C.P., Bihar, Kathiawad, Central India and Hydrabad. The number of people who resorted to famine relief exceed far more than those of any previous famine. The Govt. spent Rs. 150 mn. on this famine. There was very high mortality among cattle. So the Govt. took special measures to cope up with the fodder famines.

In 1901 a *Third Famine Commission under the Chairmanship of Anthony M. Donell was appointed,* which declared that famine relief taken as a whole was excessive. It recommended :—

(1) Adoption of moral strategy to prevent demoralisation.

(2) Revision of the wage scale. The abolition of the minimum wage and the introduction of payment by result.

(3) Non-official assistance was to be given greater importance.

(4) Decentralisation of relief works, small works in village were to be preferred to large public works.

(5) Exclusion from relief works of those who were in a position to maintain themselves.

(6) Enlargement of the relief system by measures for dealing with fodder famine.

U.P. Famine of 1907-08.

In 1907-08 the U.P. suffered from a famine and large works had to be started. This famine was successfully controlled. Large numbers were relieved in their own trades. Prompt help was given by liberal money advances and by remission and suspension of land revenue. Small village works were substituted for large relief works thus bringing relief nearer home.

Famine of 1918-19.

The 1918-19 famine was one of the major famines. It affected Bombay, Hydrabad and Madras. The Govt. machinery having reached

a high state of development and being ready with plans of provisional works there was little shock to social life.

Bengal Famine of 1942-43.

The Bengal Famine of 1942-43 was a peculiar one and is usually characterised as man-made famine. It is estimated that 1·5 mn. people perished. Though there was shortage of food and Bengal could not *import rice from Burma owing to Japanese occupation*, yet most people died because the food prices were enhanced to very high levels by hoarders and blackmarketeers.

It is estimated that more men died in this famine than in the whole British Empire during the last World War *J.K. Mitter* remarked, 'Many beautiful rivers, rivulets and streams of Bengal carried upon their bosoms hundreds of people who died of starvation......Rich repasts had been afforded to jackals and vultures. Many a fairfields had become disfigured with rotting corpses and grinning skulls."

Government Policy. Under the East India Company, there was no uniform system of famine relief. Famines were handled by local authorities. Various experiments such as storage of grains, bounties on import, penalties for hoarding, advances of money for sinking of wells and relief works to afford employment were tried at different times. *Since 1812 Govt.* ceased to interfere with commerce.

In 1869 Muir defined the remedial policy thus ; "Every district *officer will be personally held responsible that no deaths occurred from* starvation which could have been avoided by any exertion or arrangement on his part or that of his subordinates."

In 1877 the then Secretary of State for India states the policy thus [illegible] life is undoubtedly paramount to all other consi- [illegible] ainst people [illegible] own industry and thrift. In the interests of the distressed [illegible] and the taxpayers precaution should be adopted against indolence and impositions."

This declaration failed to satisfy everybody and so *in 1878* the question of famine relief was submitted to the Famine Commission *headed by Sir Starch. On the recommendations of this* Commission the Govt. promulgated the *Provisional Famine Code in 1883. The famine* wage was defined as "the lowest amount sufficient to maintain health under given circumstances." The Govt. also constituted *the Famine* Insurance Fund to which annually Rs. 15 mn. were allocated. The *Fund was used for relief, protective* works like railways and irrigation and for the avoidance of debt.

The Famine Commission of 1901 under the Chairmanship of Sir Mcdonell recommended that help should be given at the start, because, they held that if this was done the people would help themselves. They emphasized the need to 'put heart' *into the people. They recommended* the revision of the wage-scale and suggested the introduction of scheme of payment by result. According to them small works in the villages to be given preference to large public works which were the back- of relief works at that time.

The modern famine policy of the Government of India consists of 2 parts, the *remedial measuers* and the *protective measures.*

Remedial Measures, The famine relief measures consist of :—

(1) **Standing Preparations.** Govt. keeps itself informed about the economic condition and prepares suitable programmes of relief works. It keeps a stock of stools and plants. Each State has its own famine code.

(2) *Danger Signal. When crops fall, credit collapses unemployment appears and petty thefts occur and danger is apprehended.*

(3) **Preliminary Action.** At this stage Govt. explain its policy and enlists non-official help. Suspension of revenue is declared and loans are granted to farmers. If the number of persons requiring urgent relief increases poor-houses are begun.

(4) **First Stage of Relief.** Test works are started where the condition of worker is neither too strict nor too lenient. The main aim is to locate whether people are hungry.

(5) **Second Stage.** If the numbers attending test work are large, test works are converted into relief works. All employable applicants are admitted. At this stage all unable to earn a living on relief works are granted gratuitious relief. Poor-houses are also started.

(6) ***Third Stage.*** With the advent of the monsoon a new policy starts. Attempts are made to re-establish ordinary agriculture. People employed on the relief-works are transferred to small public works near their homes and villages.

(7) **Final Stage.** When rains set in, relief works are given up. Taqavi loans are granted for the purchase of seed and cattle.

Protective Measures. (1) The collection of accurate data about the conditions of people and economic changes in various districts and annual publication of trade statistics.

(2) Extension of railway to enable quick transport of grains,

(3) Construction of protective irrigation works.

(4) Institution of famine insurance fund.

(5) Reductions of land revenue during agricultural distress.

(6) Advance of Taqavi loans.

(7) Development of co-operation.

(8) Experiment in farm improvement.

(9) Revision of rent law in favour or farmers since 1880 in almost all the States.

(10) Industrialisation of economy.

Q. 18. Explain the change in the nature of famines. Also give causes and consequences of famines.

(Bom. 1973, 1977, G.N.D.U. M.A. 1976)

Ans. Change in the Nature of Famines.

In old times political disorder, war and misrule were undoubtedly the major causes leading to famines. Another cause of famines is the

(6) **Backwardness of Agriculture.** Our agriculture is still in a primitive state of development. The holdings are uneconomic and agricultural income is low. The farmer has no reserve and no resistance power when famine occurs.

(7) **Over-Population.** With the rapid increase of population the food problem becomes more acute. The population has largely increased but it has not been accompanied by a proportionate increase in wealth.

(8) **Money Famines.** As we have mentioned above now the nature of famines has changed. The Famine Commission of 1880 remarked, "Though there was enough food in the country to feed the entire population, even in the worst years, yet people were lacking the means to purchase it." The calamities which devastate the country from time to time are not, therefore, "crop famines" but "money famines."

To quote *Dr. R. K. Mukerjee* "The crux of the famine question in India is inextricably inter-woven with the problems of our precarious rainfall, [illegible] finance. [illegible] or collect [illegible] peasantry [illegible] harvest are established.

Economic Consequences of Famines. "The economic consequences of the famin[illegible] the number of those dead a[illegible] The consequ-ences are ev[illegible]

(1) **Effects on Agriculture** "T[illegible] bound to be disastrous in [illegible] India......There is a general [illegible] people and the s[illegible] to the cultivat[illegible] famines, and the [illegible] (*Jather and Beri* [illegible] in those parts [illegible] The expectation [illegible] vestment. In c[illegible] money since the [illegible]

More ruinous were the effects on agricultural progress. The farmers lost heart from fear of famines, their morale suffered. So they played for safety and also reduced their investment in land. The results of this defeatish mentality were serious.

The area cultivated fell, marginal lands would not be cultivated for fear of famines. There was a similar fall in double-cropped areas. Industrial crops were given up for food crops, and there latter for inferior ones like millets, which were more hardly ; thus millets took the place of wheat and rice.

There was a check on investment in manure, better seed etc. due to fear of famines. It also checked the improvement of cattle, who

growth of population which in the absence of industrial development leads to the pressure on the soil and the conquent sub-division and fragmentation of holdings. The existence of uneconomic holdings and [illegible] ve. But the most [illegible] occasionally floods [illegible] harvests and the consequent distress.

Prior to the development of roads and railways the Indian villages were isolated. If in one region there was a failure of harvest it developped into serious famines leading to heavy deaths. There was no chance of importing food from outside. The Famine Commission of 1900 pointed out how in the famines of 1837, 1866 and 1877 millions died from hunger owing to the want of railways. Thus old famines were famines of food.

But the second quarter of the nineteenth century saw the extension and improvements of roads and the railways enterprise in India. With better roads and railways the village isolation was permanently broken. It became possi[illegible] with food scarcity. [illegible] d in any famine-stic[illegible] dis-tant places [illegible] has substituted famines of [illegible] ey. Famines, therefore, b[illegible] meant failure to earn enough money to buy food in the usual way by working in the fields *etc.* and not the availability of actual food supplies. The modern famines are not food famines, but are money famines."

Causes of the Famines are the following :—

(1) **Gamble in Monsoons.** The failure of monsoon spells disaster to teeming millions. There may be a failure or excess of rainfall Failure of rain causes a draught, excessive rains bring about floods. Rains may be untimely. They lead to a failure of crops, there is scarcity of food and famine occurs.

(2) **Locusts, Pests and Diseases.** Insects, pests and plant diseases are a source of serious loss to farm production and bring about famine conditions.

(3) **The Poor Transport Facilities.** The facilities till recently, were not fully available and this prevented rapid supplies of food from the surplus areas to the famine-sticken areas.

(4) **The Initial Indifference and Callousness of the Foreign Government.** The foreign Govt. which was more concerned with conquests and exploitation of the country rather with safeguarding the welfare of the people's has been also the indirect cause of the occurrence of famines.

(5) **The Undue Pressure on Land.** As a result of the decline of the urban industries undue pressure on land has been a serious weakness of our economy. The failure of agriculture deprives large number of our of their livelihood and results in famine.

(6) **Backwardness of Agriculture.** Our agriculture is still in a primitive state of development. The holdings are uneconomic and agricultural income is low. The farmer has no reserve and no resistance power when famine occurs.

(7) **Over-Population.** With the rapid increase of population the food problem becomes more acute. The population has largely increased but it has not been accompanied by a proportionate increase in wealth.

(8) **Money Famines:** As we have mentioned above now the nature of famines has changed. The Famine Commission of 1880 remarked, "Though there was enough food in the country to feed the entire population, even in the worst years, yet people were lacking the means to purchase it." The calamities which devastate the country from time to time are not, therefore, "crop famines" but "money famines."

To quote *Dr. R. K. Mukerjee* "The crux of the famine question in India is inextricably inter-woven with the problems of [illegible] rainfall, e[illegible] finance. [illegible] or collect[illegible] masses of the Indian peasantry to support themselves as soon as the conditions of a deficient harvest are established."

Economic Consequences of Famines. "The economic consequences of the famines cannot be measured by merely counting the number of those dead as a result of starvation, suicide or disease. The consequences are even greater", says *Dr. C.B. Memoria.*

(1) **Effects on Agriculture.** "The economic effects of famines are bound to be disastrous in a preponderately agricultural country like India......There is a general lowering of the efficiency of the surviving people and the suspension of cultivation involves a great economic loss to the cultivators. Food famines are often accompanied by fodder famines, and the resulting loss of cattle further hampers agriculture." (*Jather and Beri*). The methods of cultivation were generally the worst in those parts which were most liable to periodical failures of rain. The expectation of a famine acted as a hurdle in the way of farm investment. In case of cattle, the cultivator was not willing to invest his money since the future was very uncertain.

More ruinous were the [illegible] The farmers lost heart from fear [illegible] they played for safety and also [illegible] The results of this defeatish mentality were serious.

The area cultivated fell, marginal lands would not be cultivated for fear of famines. There was a similar fall in double-cropped areas. Industrial crops were given up for food crops, and there latter for inferior ones like millets, which were more hardly ; thus millets took the place of wheat and rice.

There was a check on investment in manure, better seed etc. due to fear of famines. It also checked the improvement of cattle, who

suffered most during famines and who were the most important capital of farmers. Thus intensive cultivation suffered a set-back.

(2) Effects of Population. The growth of population was checked by starvation deaths, but much more by under-nourishment. The latter resulted in a lower birth-rate and in many more deaths from epidemics due to lowered vitality. The growth of population during different decades shows very clear influence of famines. There was also migration to towns in search of work which increased urban population. But this was generally temporary, except when the migrants found permanent work there.

(3) Effects on Industries. There was alone an adverse reaction on trade and industry because of the reduction in the purchasing power of the masses. Industries in India especially those which depended for their market on the demand in country itself were bound to suffer with a collapse of agriculture. Such a sympathetic collapse of industries was a prominent feature of the old Indian economic order.

(4) Effects on Various Classes. Labourers suffered the most as, being the poorest class, they had no savings. The lower artisans were in the similar position. Skilled artisans like the weavers suffered the most in another sense, they lost their skill. They had to do physical work under famine relief schemes and the demand for their skill virtually disappeared in times of famine.

(5) Effects on Urban Growth. "Famines added a great deal to urban population. As there was no work in the fields, the rural population went to the cities in search of employment. It is said that in the great Rajputana famine of 1888, Agra, Delhi and the other nearby towns doubled their numbers. It must be pointed out that this movement was temporary. In a few cases, the towns might absorb this influx of population, otherwise they returned to the villages as soon as conditions became favourable." (*D. R. Gadgil*)

(6) Effects on Public Finance. Public Finance was greatly dis-

d women young and old to
Sale of children came to be

"At a time when the West of Europe, the birth-place of the modern industrial system, was inhabited by uncivilised tribes, India was famous for the wealth of her rulers and the artistic skill of her craftsmen."

—*Industrial Commission*

7

DECAY OF HANDICRAFTS

Q. 19. Examine the various factors that led to decay of handicrafts and progress of ruralisation in India during 19th century.

(Pb. M A. 1978 ; Pb. B.A. Hons. 1982, 1977)

Or

Trace the growth of handicrafts in India during the latter half of the 18th century. Explain the reasons for their subsequent decline.

(Delhi 1980, 1977 ; G.N.D.U. M.A. 1974 ; Bom. U. 1976)

Or

Briefly describe the old urban handicrafts and their organisation. Mention the causes of their decline. *(Bom. 1980)*

Or

Account for the decay of Indigenous industries in India in the latter half of 19th century. Do you agree with the view that causes of ultimate failure of Indian industries lay in inferiority of Indian techniques and inefficient marketing organisations for Indian products ?

(Pb. M.A. 1980 ; Allahabad M.A. 1976)

Or

Explain the influence of the various factors which contributed to the decline in the 19th century of the chief Indian handicrafts industries.

(Mad. B.A. 1976)

Or

Examine the causes of decay of Indian industries in the 19th century.

(Mad. B.A. 1978)

Or

Narrate the circumstances that led to the decline of handicrafts in India. How do you account for the persistence of handicrafts ?

(Madurai 1978, Mad. B.A. 1974)

Or

Describe the extent and organisation of the chief industries of India before the British consequest of the country. Discuss the causes of their subsequent decline. *(Mad. B.A. Hons. 1979)*

Ans. "It is sometimes said that India has never been an industrial country and that Nature has destined her to be an agricultural country.........it is easy to disprove such a statement by an appeal to her past history." As the Industrial Commission (1918) remarked, "At a time when the West of Europe, the birth-place of the modern industrial system, was inhabited by uncivilized tribes, India was famous for the wealth of her rulers and for the artistic skill of her craftsmen." "Egyptain mummies dating from 2,000 B.C. have been found wrapped [illegible]" "Ere yet the pyramids looked [illegible] in Greece and Italy, those cradles of European civilisation nursed only the tenants of wilderness, India was the seat of wealth and grandeur." "The gossamer muslin of Dacca, the beautiful shawls of Kashmir and the brocaded silks of Delhi adorned the proudest beauties at the court of Caesar, when the barbari- [illegible]" Indian muslin was described [illegible] bwebs." "A piece of the finest [illegible] us, "twenty yards long and one- [illegible] roughs a finger ring and required six months to manufacture."

At the beginning of the nineteenth century there were handicraft in towns, which were by far the best organised industry in India. There is no doubt that in these handicrafts, Indian urban industry has reached a high watermark of excellence. (D. R. Gadgil in the "Industrial Evolution of India in Recent Times.") They combined utility with artistic beauty.

The Main Handicrafts. The main of them was the cotton textile. [illegible] ead. Fine muslins. [illegible] etc. "A piece of the finest muslin twenty yards long and one yard wide could be made the pass through a finger ring and required six months to manufacture." Cotton fabrics were manufactured all over India, chiefly in Lucknow, Ahmedabad, Nagpur, Madura etc. Silk manufacture was undertaken [illegible] ma, Yeola, etc. [illegible] ar, Ludhiana, etc.

There were metal industries as well. Brass, copper, and bell-metal wares were made in Benaras, Nasik, Poona, Hyderabad, Vizagapatam, Tanjore, etc.

Artistic industries, *e.g.*, enamelled jewellery, carving of stone, engraving, etc., were found scattered throughout India.

Thus in all cities of India there were different handicrafts. Unfortunately the demand for them was mainly local. Outside demand was insignificant generally. Supply of raw-materials had caused the localisation of the shawl industry in Kashmir whereas mere tradition had

made Agra the centre of marble works. Again certain areas became famous for their products.

Organisation. The handicrafts in town were organised into guilds which looked after both the quality of the products and the welfare of the members A court of eldermen managed each guild. It had two chiefs and a clerk. New entrants had to pay an admission fee. The craftsman was not a capitalist, but worked to order upon the materials supplied by his customer. However, the decline of these handicrafts became marked towards the middle of the 19th century.

But Indian Industries dwindled about the middle of the 19th century. It could be attributed to the following factors :—

Factors Leading to the Decay of Handicrafts

(1) **Peculiar Nature of Demand.** According to D.R. Gadgil, "In terms of pure economics, the cause of the decline lay in the peculiar nature of the demand for the products." According to him the history of the Kashmir shawls industry shows within such a short period of time the handicrafts industries passed through various phases of decline.

The Kashmir shawls, mainly produced in Kashmir and several other towns of Punjab had been famous for centuries. But by 1880 the industry was quickly declining and the decline was so quick that by the end of the century "the industry was already a mere tradition—a memory of the past." "The first setback was the *great famine of about* 1830 which drove a large number of Kashmiris to the Punjab, as a result of which Amritsar became the emporium of shawl trade. At about the mid of the 19th century, the shawls became very popular in European countries, especially in France and the French traders established complete control over it. As in the case of handicrafts everywhere the independent craftsman was not a big capitalist and he generally worked to order, the materials being supplied by the customers. The French traders used to advance money to the shawl weavers, and buy the finished goods from them. The French traders prevented *adulteration* and the introduction into the industry of aniline dyes that was responsible for the decay of Indian textile handicrafts. But quite possibly, they did introduce popular European patterns of all kinds into the industry with the disastrous result that artistic merit of the industry greatly deteriorated. When the *Franco-German War* cut off the French demand, the demand for the product of the industry fell off. Even after the war, on account of the *change of fashion* in France, there was no revival of the French demand. To tide over the difficulty, the industry adopted methods that completely destroyed the reputation of the industry and ensured its complete decay and destruction. They put cheaper goods on the market; *they lowered the standard* and produced inferior goods to satisfy buyers of lower tastes, they began copying

of *competition* of foreign machine-made goods—cheap imitations of the shawls—produced by unscrupulous Lanchashire mill-owners."

The steady drying up of demand, along unfair competition from the side of supply, can explain the process of decline and ultimate decay of most of the Indian handicrafts.

(2) **The Disappearance of Native Courts.** The disappearance of native Indian courts which meant the cesation of demand for handicrafts products. The developing of dyeing industry of Lucknow, which had been indirectly fostered by the Nawabs by a prescription that the nobles should appear in different colourful clothes on different festivals etc. during the year, declined after 1856. Luxury products in demand for 'State occasions and for display in courts' were no more needed and the demand, though it did not disappear completely owing to the survival of the nobles, steadily began to fall. The native princes had patronised the handicrafts not only by creating demand for their goods but aso by retaining the best craftsmen on regular pay, thus giving them security and enabling them to produce their best. Thus the disappearance of the courts struck a serious blow on Indian handicrafts by steadily reducing the demand for their goods and by witholding the court patronage which the craftsmen had previously enjoyed.

(3) **The Establishment of a Foreign Rule.** Establishment of a foreign rule and the foreign influences were injurious to handicrafts even in the few surving feudatory States. The European demand had a double impact on the handicrafts.

Demand created by them, though small compared to the demand created by the presence of an Indian court, certainly arrested the rapidity of decay.

Indiscriminate European patronage reduced the standard and the artistic value of the products. The introduction of the new patterns and the demand for cheap goods led to adulteration of material and hasty workmanship as for example deterioration in the quality of Kashmir shawls consequent on the introduction by the French of lifeless European pattern. The effect was disastrous for indigenous art.

[illegible] accepted [illegible] whole [illegible] was the [illegible] easure. [illegible] rental [illegible] t, but required him to doff shoes of native make when in the presence of a superior was sufficient to kill the embroidered show industry.

The industry of dewaxening and inlaying of arms, weapons and [illegible] India, in Cutch, in Sindh and in the [illegible] which by disarming the popula- [illegible] prohibited the possesion and use of arms.

The alien Govt. too weakened the power of the guilds which regulated trade and upheld a high standard of workmanship and supervised the quality of the materials used. This resulted in adulteration of the material used, inefficient workmanship and fall in artistic value of the goods produced.

(4) **Competition of Machine-made Goods.** Competition of European manufactured goods was partly responsible for the decay of the Indian handicrafts. This was specially the case in textilies. *D.R. Gadgil* observed, "The invention of the power-looms in Europe completed the decline of Indian industries." Indian artistic products came to be under sell by cheap British manufactures both in the home and foreign markets. The urban weaver of finer textiles was hard hit. The European producer was unable to compete with Indian village weaver in supplying the cheap and durable though coarse cloth was largely in demand among peasants. Thus while the village weaver held his own and successfully resisted European competition ; the urban weaver producing finer textiles went under, being in the matter of price, hopelessly beaten by machine-made product which flooded the Indian markets. The process of decline was further hastened by the change of public taste, *i.e.*, the ever-growing presence of public for the cheaper and less artistic manufactures with their relatively crude colours and designs. There appeared the general preference for mill-made cotton in place of silk.

This process of decline started by the establishment of the alien rule and speeded by the forces of foreign influences was completed by the competition of foreign products [illegible] the decay of Indian artisan. [illegible] sure on land converted the country from being a seller of rare artistic manufactures and much sought after specialities into a supplier of food-stuffs and raw-materials for the materially more advanced countries in the West.

(5) **The Laissez-faire Policy of the Indian Government.** Even when the rule of the country passed over from the hands of the East India Company to the Crown, Indian Government did not raise its little finger to help the declining handicrafts. It followed the policy of *laissez-faire* and protection to the Indian industries till as late as 1923, when a half-hearted policy of protection was followed. It went out of their way to give direct assistance to English manufacturers in exploiting the Indian market.

(6) **The Hostile Policy of the East India Company.** East India Company followed a policy [illegible] discouraged Indian manufactures in the early years of the British

rule in order to encourage the manufactures of England. Their fixed policy......was to make Indians [illegible] to the [illegible] of Great Britain and to make the [illegible] to supply material for [illegible]

Prof. Wilson remarks, "Had *not such heavy duties* and *prohibitory* decrees existed, the mills of Paisely and Manchestor would have been stopped at their outset and could scarcely have been set in motion even by the power of steam... The foreign manufacturers employed the arm of political injustice to keep down and ultimately strangle a competitor with whom he could not have competed on equal terms." High duties ranging from 30 to 80% and in some cases complete prohibition was resorted to.

(7) **Colonial Dependency.** The capitalist development in Great Britain accelerated to a great extent by the very fact that industrial progress in India was prevented totally. India was reduced to the status of accolonial dependcy only. As Ranade remarks, "The great Indian dependency of England has during this (19th) century come to supply the place of old colonies. This dependency has come to be regarded as a plantation, growing raw-produce to be shipped by the British agents in British ships, to be worked into manufactured articles by British skill and capital and to be re-exported to this dependency by British merchants to their corresponding British firms in India and elsewhere."

(8) [illegible] "T[illegible]rans- [illegible] cially [illegible] rts of [illegible] dded [illegible] The [illegible] isans [illegible]

(9) **Change in the Tastes of the People.** Dr. Vera Anstey writes, "Richer classes in India began to adopt European fashion and either purchased imported goods or were content with the cheaper indigenous [illegible]

[illegible] The ignorance and [illegible] were also respon- [illegible] They did not and [illegible] came out of date [illegible]

(11) **High-handedness of Company's Agents.** The agents of East India Co. were entrusted with powers which they frequently used

for their personal advantage. Artisans were forced to accept non-remunerative wages as they were compelled to accept advances to supply goods on unduly low prices. The economic result was wholesale abandonment of occupation by weavers.

(12) **Prohibition of Export of Tools.** England, during the period, prohibited the export of tools and machinery and also the migration beyond the seas of artificers and workmen employed in printing calicoes, cottons, muslins and linens. Thus India was denied the opportunity of receiving apprenticeship in large scale manufacturing production.

Consequences. The evil result of all this was great. "*The liquidation of the artisan led to unemployment on a prodigious scale.* What were the fates of all these scores of millions, who has so far been engaged in industry and manufacture to do now ? *They did die in millions.* The English Governor-General of India Lord Bentinck, reported, in 1834, that the misery hardly finds a parallel in the history of commerce. The bones of the cotton weavers are bleaching the plains of India." (Jawaharlal Nehru in his *Discovery of India*).

There were various other handicrafts such as iron-smelting, saltpetre industry, bangle-making, glass manufacture, paper-making, etc., which also decayed. The price of charcoal rose and railways began to be extended and forests reserved. Again, there was the competition of imported pig iron. These affected the iron-smelting industry. A bad tariff policy and discovering of chilinitrates ruined the saltpetre industries. The imports led to the ruin of the glass and paper industries. "Thus the opening up of the country was resulting in the killing *of all indigenous industries.*" D. R. *Gadgil* (*in* "The *Industrial* Evolution of India in Recent Times.") Says, "*The decline of the handicrafts caused a higher pressure on land for now men could not be employed in urban industries : To meet this evil, new forms of industries (plantations and factories) were being introduced.*"

By 1880, the downfall of handicrafts was merely complete and by 1895 they were the memories of past only. The consequences of this decline of handicrafts were as follows :

(1) Ruralisation ; (2) Unemployment ; (3) Famines ; (4) Loss of traditional skill ; (5) Disturbance in occupational structure ; *(6) Change in composition of foreign trade ; (7) Poverty; (8) Pres*sure on land. These points may be detailed by the students.

Q. 20. Name the principal handicrafts that existed in India by *about the middle of the eighteenth century. Which of them declined later* on, and why ?

Ans. The Indian handicrafts that existed in our country by about the middle of 18th century were mainly those that produced fine textiles or other luxury goods for the use of aristocratic class composed of nawabs, princes, and court nobility. The products of the Indian handicrafts, chiefly those of the urban part of the industry had reached a high water-mark of excellence towards the close of the 18th or beginning of the 19th century. These products enjoyed a world-wide reputation and products like the 'calicoes' and 'corahs' of Bengal were

the chief items of trade of the East India Company. *Dr. Watson* complimenting the high quality of these artistic products remarked : "The Indian taste in decoration is in the highest degree refined. There is no waste of ornamentation............nor is there any lavish expenditure of ornament which so often purchased show at the expense of comfort." Similarly, M. Blanqui, a French national paid a high compliments to Indian craftsmen when he remarked, *"Les Indiens sont les frances del, orient pour le genie industrial."*

[illegible] The main industry of this time was [illegible] cupy [illegible] and many varities had be [illegible] e of certain towns or cities. The muslin of Dacca had thus earned a world repute for itself. So finely woven it was that it is said that a piece of finest muslin of twenty yards in length and one yard in breadth could easily pass through a finger ring. What a fine example of excellent Indian workmanship it is indeed ! Besides, Dacca which specialised in the making of muslin, muslin was also manufactured at Krishannagar, Chunderee and few other places in the country. This industry flourished entirely on courts, and when the courts decayed later on, with them also decayed the industry.

Cotton Fabrics. Next to muslin, came the fine cotton fabrics of all kinds manufactured throughout the country. Lucknow, thus, was famous for its chintzes ; Ahamdabad for its dhoties and dopattas, Nagpur, Umrer, and Paoni for the silk-bordered clothes and Madura for her cotton fabrics.

Silk Cl[illegible] [illegible] silk cloths. [illegible] corahs of [illegible] products c[illegible] exported in a large quantity. The fine flowered brocade work of Benaras and Ahmedabad and the fabrics in double weaving of colours produced at Poona, Yeola and other places had their no rivals in the matter of quality and artistic designs.

Woollen Fabrics. In the case of woollen fabrics the best known were the shawls of Kashmir and Punjab manufactured chiefly at Amritsar, Ludhiana and other towns.

Artistic Products of Metals. Besides the textiles and woollen industries that were in the heyday of their glory in the eighteenth century, artistic products of metals were produced also at various places in the country. Benaras was, thus, famous all over the country for its brass, copper and bell-metal wares. Other centres where this craft was carried on a commer[illegible] Bombay Presidency [illegible] was mainly practised in Kutch, Sindh and Punjab towns of Sialkot, Kotli Loharn and Lahore, etc. [illegible]

Enamelled jewellery and Stone Carving. The towns of Rajasthan were known for their own special art crafts especially enamelled jewellery, stone-carving, etc. The towns of Jaipur, Jodhpur and Amber, etc. were known for their special products.

Every important town had its full complement of the different handicrafts. Thus Agra had traditionally become famous for marble inlaying work, Ahmedabad for Phulkari work and Yeola for paithani work. Similarly, various States were especially well-known for certain products. For instance, Kashmir was noted for her shawl industry and paper-machine work. Mysore and South Kanara, similarly, were known for their sandal-wood carving.

Thus, in short the handicrafts particularly cotton textiles, silk and woollen fabrics were flourishing about the middle of the eighteenth century. Later on under the three-fold impact of the disappearance of courts of nawabs and nobles, the foreign rule and the growing competition of foreign cheep mill-made fabrics not few of these handicrafts declined. The cotton fabrics particularly the fine quality sector, the silk fabrics and also those handicrafts the demand for which mainly used to appear from princely sources declined. The shawl industry of Kashmir and Punjab, the famous muslin of Dacca and Chanderee and the silk fabrics of Mysore etc. received a hard blow from which they could never recover.

(For further detailed dicussion please refer to our Question No. 19)

Q. 21. Compare the way in which our urban and rural handicrafts reacted to the contact of the West. *(Bom. 1974)*

Ans. Reaction of Urban industries to the Western contact :

It was the linen and the calicoes, the jewels and embroidery, woollen and silk manufactures which stole the attention of the European treaders and which supplied the basis for the lucrative trade of the East India Co. Naturally, the early policy of East India Co. was one of encouraging the Indian handicrafts. The Company actively busied itself in organising and financing those handicrafts in the goods of which it had a special interest.

The Industrial Revolution in Britain altered the whole situation. Pressure was put by vested interests in U.K. and India came to be looked upon as a market for the U.K. manufactures and a source of raw-materials and corn. This was a death-blow for the Indian urban handicrafts. The British manufactures were freely imported into India and sold at low prices while the exports of Indian handicraft goods to U.K. were severely tightened.

The Indian princes had patronised the crafts not only by creating demand for their goods but also by retaining the best craftsmen [illegible] regular pay, thus givin them security and thereby enabling [illegible] produce their best. The urban industries were mainly art and [illegible] industries and these industries depended for their continued [illegible] on the demand of the nobles and the court. The urban [illegible] not stay independently of these courts. With the increase [illegible]

cal power of the British in India, the native courts disappeared one by one. Luxury goods demanded for State occasions and for display in durbars were no longer needed and the handicraft industries started declining. For example, the flourishing dyeing industry of Lucknow declined after 1856 when Nawabs lost their political hold.

The Western contact also brought in its train the Western influences injurious to Indian industries. The new educated class followed Western standard and took up to fashions and ignored the Indian artistic goods.

The alien rule in India also weakened the guilds which had controlled trade and kept up a high standard of workmanship. The decay of the power of the guilds resulted in faulty workmanship, adulteration of material and the general lowering of the quality of the goods.

The control of the industry by the foreign traders led to the lowering of the artistic standard. The control of Kashmir shawl industry by the French traders who wanted to introduce the lifeless European patterns deprived the industry of all its merits. The foreign traders, tourists and officials also demanded cheap goods that were quickly delivered. These led to hasty workmanship and adulteration which again spoiled the industry.

"The British po[illegible] possession and use of [illegible] damascening and inla[illegible] Punjab towns.' Similarly as Kipling says, "The unwritten ordinance which permitted an oriental to retain a pair of patent leather boots on stockinged feet, but required him to doff shoes of native make when in the presence of a superior was sufficient to kill the embroidered shoe industry." *(Gokhle and Bannerjee)*

The Western contact also led to the rapid development of railways in India by English companies. This rapid development of communication and transport facilities did not allow the artisans to adapt themselves to the altered circumstances. "The artisans, being taken unware and left to their own resources, abandoned their traditional occupations in favour of agriculture thus increasing the pressure on the soil. *The result was the progressive ruralisation of India* which was made subservient to the industries of Great Britain."

Reaction of Rural Industries to Western Contact.

Profs. Gokhle and Bannerji write, "Though the rural handicrafts were not affected to the same extent as the urban industries and though the carpenter, the blacksmith, the washerman, the barber-surgeon, the potter etc. still exist as village servants with their recognised duties, and remuneration, yet the impact was sufficiently great." The cheap and quick transport and communication broke the isolation of the village and with it the village self-sufficiency. The growth of the Western spirit [illegible] determining factor [illegible] village artisans by [illegible] tem of payment for

actual work done. The more ambitious worker started migrating to towns where they could earn more.

Of course, different industries were affected differently by Western contact. The European producer was unable to compete with the Indian village weaver in supplying the cheap and durable though coarse cloth largely in demand among the peasants. This enabled the weaver to hold his own and successfully withstand the European competition. Yet his methods have been affected. He now mostly makes use of mill-made yarn and uses in many cases the flying shuttle.

Again the artisans who still carry on their ancestral crafts have adopted the changed condition of production. For instance, the black-smith has taken to iron rolled into convenient shapes and the sheets; the brass and copper-smith to sheet metal and the dyer to synthetic dyes. The carpenter uses improved implements and the tailor invariably makes use of a sewing machine.

On the other hand, we notice that certain village industries have vanished completely. The import of kerosene oil, the export of oil-seeds like ground-nut, especially after the opening of the Suez Canal, in the place of the export of oils and the development of large-scale oil crushing industry in India itself, have forced the village oil crushing industry to vanish.

Similarly the villages have started using more and more utensils and vessels made of copper, brass and alluminium, imported from outside and this has affected the potter adversely. Another industry which vanished with the onslaught of imports is the village spinning.

Thus we find that not all the artisans in the village have been equally affected. Those who have been able to concentrate on large village or to migrate to the towns have improved their position.

"On the whole," according to *D. R. Gadgil*, "village industry was a decaying industry. Large numbers of those thrown out took to ordinary labour, while the fortunate few were absorbed in industry in the towns : some also took to agriculture ; while the rest *i.e.* those who still retained their hereditary occupations, remained what they always were a poverty-stricken class, abnormally sensitive to the variations of the monsoons."

"Indian agriculture has passed throxgh a good many stages of ups and downs, but still remains backward."

—*Malhotra*

8

THE STORY OF INDIAN AGRICULTURE

Q. 22. Review the story of Indian agriculture.

Or

Divide the history of the years 1860 to 1914 into periods so as to bring out the importance of monsoons and consequent rhythm of prosperity and adversity of Indian agriculturists. *(Bom. 1976)*

Ans. Agriculture During 1860-1880.

The decade staring from 1860 was one of great prosperity for Indian agriculture, thanks to transport developments. The American Civil War led to an increased export of raw cotton to Europe as there was a "cotton famine in Lancashire." The price of cotton increased by 30%. Thus the Indian farmer was forced to realise the importance of factors other than local affecting his produce. Agriculture was commercialised and the economic isolation of India was shattered. Due to the development of railways and roads, there was a great demand for labour, which raised the wages. There was a general tendency for prices to rise.

As Indian trade progressed and as new gold mines in Australia and California were found, there was a great influx of gold into India, which, again, increased prices. The decade (1860-1870) was free from famines. Hence the farmers prospered during 1860-1870.

But the reaction came soon. During 1870-1880, the period was one of great distress all round. A series of famines devastated the country (*e.g.* Rajputana, Bengal, Bihar and Madras).

These famines meant a setback to the progress of agriculture. The frequency of famines prevented the improvement of either land or cattle.

A *second* cause for the depression of this period was the cessation of demand for Indian cotton with the end of the Amrican Civil War.

Trade was dislocated in Bombay and many merchants were totally ruined.

A *third* misfortune was the high assessment. Unfortunately for the farmer revision of assessment took place during the prosperous period of 1860-1878. Hence they were fixed high. But with the advent of depression, the farmer was hit hard by the assessment, and became indebted to pay it.

Forthly, there was general decline of all trade. Some industries (like the shawl industry) were affected by the Franco-German War.

Finally, the Government's expenditure increased and with it the burden of taxation.

In parts of the Deccan there were riots, for the oppression of the riots by the unscrupulous money-lenders was intolerable. This was a period in which land freely passed on from the farmers to the money-lenders. The Government could not view the situation with equanimity. Hence the Deccan Agriculturists' Relief Act (1879) was passed restricting land transfer. By this Act, arrest for debt was done away with. In certain cases the debtor could be declared insolvent. The court should go into the previous history of the debt of an agriculturist in all cases; and local panchayats were created to deal with petty sums.

On the whole, the condition of the agriculturist of this period was very poor indeed.

Agriculture During 1880-1895.

The Indian agriculturist experienced a spell of prosperity between 1880 and 1895. There were no famines. Our foreign trade expanded considerably. Even internal trade in agricultural produce improved. Prices of both agricultural and industrial products increased. The area uunder cultivation increased. Irrigation was improved. Again acreage under cash crops increased, chiefly in jute, sugarcane, oil seed and cotton. There was a great localisation of crops, *e.g.*, cotton in Bihar, sugarcane in the Deccan, etc. Facilities for transport multiplied thereby widening the market.

The period experienced a great improvement in agriculture. Wells were constructed, cattle were improved, better crops and methods of cultivation [illegible] However, seed selection was [illegible] of the agriculturist. Again, [illegible] the valuable manure of cow- [illegible]

The Govt. policy was an important factor affecting agricultural prosperity. The masses were steeped in ignorance. Only the State [illegible] Even during the time of the East India [illegible] ch as Agri-Horticultural, Societies in Calcutta, Bombay, Madras, etc. were started, and they were helped by the Government by small grants or free land for experimentation. The Botanical Gardens were the first Governmental agencies. In 1870 the Imperial Department of Agriculture was started, only to be wound up

in 18 8 for lack of co-operation from the Provinces. In 1880 the Famine Commission went into the whole question and recommended the creation of a Department of Agriculture and collection of statistics. In 1889 Dr. Voelcker reviewed the whole question and reported in 1893. The only achievements of the Government were the addition of new staples and improvement of machinery. There was no marked improvement of live-stock.

Yet another way of Government's assistance to agriculture was by the advancing of loans under the provisions of the Land Improvement Act (1883) and the Agriculturists' Loans Act, (1884). Under this system the agriculturists obtained loans at cheap rates of interest and could repay them in instalments along with payments of land revenue. However, the ignorant farmer preferred to go to the traditional money-lender rather than to the Government for his credit needs.

In these [illegible] period. But [illegible] the malady, [illegible]

Agriculture During 1895-1914.

The period of agricultural prosperity came to an end in 1895. There were acute famines in 1896-97 and 1899-1900. These famines told heavily upon the health and morale of agriculturists. Disease became widespread. Progress of agriculture was arrested. As a result of the famines, food crops became more and more important and industrial crops receded into the background. Again, the area under double crop fell. The fear of famines made the farmer abandon the paying for delicate crops and also proper manuring.

Between 1909 and 1914 there were no famines. There were fine harvests. However, there were local draughts here and there. The favourable period started in 1909 and in 1914 there was some prosperity. Thanks to extension of irrigation facilities. Cultivation was greatly extended, 88% of the total acreage was under food crops. As population had increased, there was a necessity to increase food supply all means.

Oil seeds and cotton were the most important industrial crops. *Production of cotton increased very much, and so, too jute.* The area under opium and indigo declined.

As for the policy and help of th[illegible] mation was spread by Government [illegible] Genaral of Agriculture for all India [illegible] ture Research Institute was created, [illegible] schools and colleges. [illegible]

It was in this per[illegible] made. Particularly, [illegible] cotton improvement. [illegible] vrieties of seeds. The Government tried to improve the quality of wheat. Research was undertaken to prevent rust and insect pest. Rice produc- [illegible] New types of groundnuts were evolved. Light iron

ploughs were introduced and also small pumps for water lifting. Under Sir Frederick Nicholson the Fisheries Department was established in Madras. Above all, the co-operative movement was started and sponsored by the Government. The Co-operative Societies Act was passed in 1904, and Provincial Registrars were appointed. Co-operative Societies were created for provision of credit. Another Act was passed in 1912, whereby Supply and Sale Societies were established. On account of these, agricultural improvements spread. By 1913-14 there were nearly 15.003 societies.

This was the position of agriculture between 1895 and 1914.

Agriculture During 1914-1930.

The years 1914-1918 were a period of some prosperity for the agriculturist. Owing to failure of rains in 1918-19 crops failed all over India. To [illegible] Government rigidly controlled [illegible] control and equitable, distri- [illegible] stortage, large quantities of Burmese rice and Australian wheat were brought in. Thanks to Nature the monsoon of 1919 was particularly good, and the situation improved. But in 1920 it became poor and caused local scarcities. The Punjab wheat crop failed, and the price of wheat began to soar up. After 1921 the times were favourable on the whole.

Although prices in general increased during War-time (1914-1919) the Government prevented the increase of the prices of foodstuffs. On the other hand, the price of imports (*e.g.* textiles, kerosene and salt) rose high. Thus the agriculturists suffered doubly. It seems, therefore, reasonable to argue that the comparative economic position of the large majority of agriculturists—especially outside the cotton tracts—worsened during the War years and years 1918 to 1921 bringing as they did, scarcity, and influenza still further depressed it. While agriculture was slowly recovering, the Great Depression (1929) set in and adversely affected it.

There was a slight increase in the area under plough during the War years.

Cultivation. As regards State plicy and help towards agriculture, the Departments of Agriculture were doing good work. In wheat, sugar-cane, cotton, jute and groundnut, improved varieties have been found out. Special seed farms, suitably equipped for discovering better seeds and distributing them, were set up. Not much was done by way of improved implements. The same applied to nitrogenous fertilisers and green manures. Instead of tackling the problem of improvement of Agriculture, root and branch, the Government had been tinkering with it.

Livestock. A special misfortune of India had been her excessive cattle population. Their number was 147 mn. in 1914-15 ; 146 mn. in 1919-20 ; 151 mn. in 1924-25.

They are dense in rice growing areas. As the Agricultural Commission says in its report, "The number of cattle within a district depends

upon, and is regulated by, the demand for bullocks. The worse the conditions of rearing efficient cattle are, the greater the numbers kept tend to be. Cows become less fertile and their calves becoming undersized do not satisfy cultivators who, in the attempt to secure useful bullocks, breed more and more cattle. As numbers increase or as the increase in tilllage encroaches on better grazing land, the presssure on available supply of food leads to still further poverty in cows : and a stage is reached when oxen from other provinces or male buffaloes are brought into assist cultivation." The Government Cattle Farms are the only agency at present devoted to improvement of cattle breeds.

Irrigation. Between 1914 and 1930 the irrigation works in India increased. By far the most important of them was the Triple Canal Project in the Punjab. Then there were the Godavari Canals, the Bhandardara and Bhatgar dams and the Sarda Canal System. The "greatest irrigation work ever undertaken" was the Sukhar Barrage. Yet, another project was that of the "Sutlej Valley."

Well-irrigation had not increased, even though the Agricultural Department had undertaken sub-artesian boring and installation of power pumps.

Up to 1921, there were three types of canals : productive, protective and minor. Productive works could be financed by loans, and were expected to yield a fair return on capital expenditure within a decade. Protective projects were built from current revenues only. However, since 1921, after the constitutional reforms, this classification was abolished. Now the canals are classified into two categories : productive or unproductive according to financial results of the project. The Reforms made irrigation a provincial transferred subject. Works costing over Rs. 50 lakhs alone were to come up before the Government of India. Advisory Central Irrigation Board was created.

The result of the increase of irrigation projects was wholesome. Land value and yield have increased. They form, as it were, an insurance against famine. Now they yield a handsome revenue to the Government.

Co-operation. The co-operative movement was started by the State Govt. to help the needy peasant. "The Indian peasant is born in debt, lives in debt, dies in debt and bequeaths debt." Not only has the amount of indebtednesss been growing but the loans have been for unproductive purposes. Another cause for agricultural stagnation is the lack of capital for improving cultivation. The coperative movement has been started to remedy these defects.

The Indian Co-operative Movement was started in 1904 by the Co-operative Credit Societies Act. This gave rise to a number of credit societies. By the Act of 1912, more credit societies and unions of dual societies were formed. Societies were started for distribution of seed ... for sales, lift irrigation, sale ... itive movement is an ... in India. "The rate ... of the co-operative

movement in India are eminently satisfactory." The reduction of interest rates of loans of the agriculturists has been the only notable achievement of the movement. The co-operative credit societies have resulted in an annual saving of Rs. 40 to 50 lakhs in interest.

Consolidation of holdings. One of the serious defects of Indian [illegible] fragmentation of [illegible] under one acre.

U.S.A.	148	acres
England	62	,,
Denmark	40	,,
Holland	26	,,
Germany	21·5	,,
France	20·25	,,
Belgium	14·5	,,
China	3·25	,,
Japan	3·0	,,
India	7·5	,,

The Royal Commission on Agriculture in India mentions a landlord in the Punjab who held 200 scattered holdings.

Of the two evils of sub-division and fragmentation, fragmentation is easier to tackle. Consolidation of scattered or fragmented holdings has been acomplished by the co-operative societies, by private individuals, and compulsorily by the Government. In the M.P. for example, a law (1928) had been passed for compulsory consolidation under given conditions. Similarly, there was a Consolidation of Holdings Act (1939) in the U.P. In Kashmir State there is compulsory consolidation of holdings by an Act of the Government when 80% of the members vote for it. We have yet to find out suitable and adequate remedies for these evils. There is a vast scope for revision and improvement of the agricultural policy of the State.

Agriculture after partition.

Consequent on the partition of our country, the position of Indian agriculture changed.

Bengal, Bihar, Orissa, Tamil Nadu, M.P., Maharashtra, Gujarat, Assam, U.P., Kerala and Karnataka grow rice.

Punjab, U.P., M.P., account for the entire wheat output in India. West Bengal produces annually about 10,000 tons of wheat, while Bangladesh 30,000 tons on an average. Similarly, Punjab, (India) produces annually 1½ million tons whereas Punjab, (Pakistan) 4 to 4½ million tons on an average.

Millets, jowar and bajra are grown not at all in P[illegible] maize there were 8 lakhs acres in Punjab (India) and 3 [illegible] Punjab (Pakistan). Out of a total acreage of 17 lakhs [illegible] India, Bangladesh accounts for 2 lakhs.

The U.P., Bihar and Punjab lead [illegible] in India. U.P. and Bihar alone account for 70% [illegible] does not produce enough sugar for her [illegible] dependent on imports.

Pakistan is almost entirely dependent on India for tea and coffee. Bangladesh grows some tea about 3½% lakh lbs. Tamil Nadu, Kerala and Karnataka monopolise the production of coffee. In fruits, Pakistan is better placed.

In respect of oil seeds, groundnut is *exclusively* confined to India. Out of 329,500 acres under linseed in 1936-37, 1,07,000 acres are in Bangladesh and Pakistan. In the Punjab, out of a total of 30,000 acres under linseed, more than 25,000 fall in our Punjab and only less than 5,000 acres go to Pakistan.

The Government of India is bestowing much attention on agriculture. Free India had to face many difficulties. Failure of monsoons in many parts of the country and the consequent famines in Rayalseema and other places brought untold misery. In 1951, 47·25 lakhs of food-grains costing nearly Rs. 215 crores were imported But the intensification of the Grow More Food C[illegible] during the next year greatly eased the f[illegible] for some of the important crops i[illegible] jute 47 lakh bales, and sugarcane 13·5 lakh tons.

An agreement signed between the Ford Foundation and the Government of India in 1952 provides for the setting up of five Extension Training Centres and fifteen Intensive Development Blocks in order to improve agricultural technique, animal husbandry, etc.

Since 1947 many welcome reforms have been introduced in the sphere of agriculture in India. The Community Development Projects and the National Extension Service help the agriculturist to improve his methods of cultivation by providing improved equipments, better seeds and cattle. Nearly 2·4 lakh compost pits have been dug in the areas covered by the Community Development and National Extension Projects Greater use of chemical fertilizers like ammonium sulphate has been observed, the total consumption increasing from 2·75 lakh tons in 1950 to 12·7 lakh tons in 1981.

Research institutes like the Indian Council of Agricultural Research (Delhi), the Central Rice Research Institute (Cuttack), the Central Potato Research Institute, the Forest Research Institute (Dehra Dun), the Indian Veterinary Research Institute (Izzatnagar) and the Indian Dairy Research Institute (Bangalore), help the farmers to reorient farming methods on scientific lines. The Directorate of Marketing and Inspection publishes marketing reports on sesamum nigerseed, groundnut, tobacco, maize and millets.

The most important trend in the sphere of agriculture after Independence is that of *land reform*. The Planning Commission's recom[illegible]tions regarding land reform were : (1) The abolition of all inter[illegible] between the State and tillers, (2) Tenancy reform designed

to reduce rents and give tenants an opportunity to acquire permanent rights over the land by payment of fixed compensation, subject to the landlord's right to resume cultivation, of a certain area for his personal cultivation, (3) Fixation of ceilings on holdings, (4) Reorganisation of agriculture through consolidation of holdings and prevention of further fragmentation. and the development of co-operative-village management and co-operative farming. A Central Committee for land reform was constituted in 1958.

Abolition of intermediaries has been fully achieved in the States of Andhra, Maharashtra, Gujarat, Madhya Pradesh, Tamil Nadu, Punjab, Uttar Pradesh, J.&K., Haryana, Orissa and Himachal Pradesh. In other States legislation is being progressively implemented. In Tamil Nadu the Madras Estates (Abolition and Conversion into Ryotwari), Act was passed in 1948 to provide for the repeal of the Permanent Settlement, the acquisition of the rights of land-holders in permanently settled and certain other estates in the State, and the introduction of ryotwari settlement in these estates. At the time of Independence about 40% of the area of the country was under intermediary tenures like zamindaris. For all practical purposes thus system has now been abolished benefiting two crore farmers who came into direct contact with the Govt. and became owners of land.

Measures to prevent sub-division and fragmentation of holdings and promote consolidation have also been undertaken in many States. In Uttar Pradesh, Punjab and Harayana consolidation has been done by co-operative societies. In the States of Andhra, Kerala, Orissa and Tamil Nadu the necessary legislation has also been passed in this regard.

Another notable movement in the sphere of land reform is that of *Bhoodan* or voluntary land gift movement started by Acharya Vinobha Bhave.
by mean
says *Acl*
beg for gifts but demand a share to which the poor are rightly entitled." The movement has spread all over India and total collections were 43,10,600 acres till March, 1982.

Q. 23. Examine briefly the tendencies noticeable in Indian agriculture during the second half of the nineteenth century.

(Bom. 1980, 1975)

Ans. Though the commercial contacts of India with the West had been going on for many hundred years and though a major part of India came under the British rule and new administrative and judicial systems were started, these did not have any impact on India's economic structure till the 19th century. But the fifties of the previous century experienced improvements in ocean steamers, the extension of roads and the beginnings of the railway enterprise in India and the rapid increase in the volume of India's foreign commerce. In 1957 the administration of India was shifted from the Company to the Crown. All these events created great changes in India and certain tendencies emerged themselves in Indian farming.

(I) **Commercialisation of Agriculture.** The first was the commercialisation of agriculture. The nineteenth century brought about an important change in Indian agriculture. This change might be described as a change from cultivation for domestic consumption to cultivation for the market. Formerly the object of the farmer was the production of corn for his own family. Now he started cultivating for the market. Subsistence economy has become an exchange economy. The change was experienced in the increase of the area of some cash-crops under plough and a specialisation in the crops-grown in different districts. There was also the development of intensive farming of the more remunerative crops made possible by the extension of irrigation. But it may be noted that the proportion of land under different crops did not alter a lot. It was the basis of cultivation that altered. The most important fact was the emergence of a market for agricultural produce which was non-existent. The farmer started disposing of a large portion of his produce instead of consuming it himself.

Following were the causes which brought about this commercialisation of agriculture :

(*a*) **Introduction of Money Economy.** Revenue and other dues had to be paid in cash and not in kind.

(*b*) **The Growth of Communication and Transport.** The transport and communication development created a market for agricultural-produce.

(*c*) **Payment of Rent in Cash.** Rents too had to be paid in cash and not in kind as previously.

(*d*) **Payment of Interest in Cash.** The money-lenders had to be paid the interest at the harvest time.

The effect of all these was that the farmer had to sell a large portion of the produce at the harvest time though he had to purchase back at a higher price from the money-lender later on in the year. a part of the crop he had already sold him at the harvest time. Thus the case of communication which made the export of farm-produce out of the village together with the introduction of money economy caused the commercialisation of agriculture. These circumstances forced the cultivator to sell even a part of the produce, which was required for his own consumption at the harvest time.

(*e*) **The Growing Foreign Demand** The increased foreign demand for Indian farm-produce was also a contributory cause. The tiller realised the significanc of foreign markets and felt that it was better for him to live on the products from his farm than on the products that he himself produced.

Commercialisation progressed much in those areas of the coutry where the crops were largely sown for export. This was the case in Burma rice area, the Punjab wheat area, the Jute area of Eastern Bengal and the cotton tracts of Khandesh, Gujarat and Berar. An efficient marketing organisation appeared. Merchants and brokers came into prominence. In the Punjab and the U.P. every railway station was a centre of export.

(2) Growth of Agricultural Indebtedness and Transfer of Land to Non-cultivating Money-lending classes.

The second tendency noticeable was the growth of rural indebtedness and the transfer of land to non-cultivating money-lending classes. The poverty of the farmer, has illiteracy and extravagance along with the bestowal of absolute proprietory rights and the right of alienation on the farmer and the increase in land values resulted in increased peasant's debt and the gradual transfer of land to the non-farming money-lending classes.

To cure this evil various steps were undertaken by the State. Laws were passed to restrict the peasant's right of alienation *e.g.* the Central Provinces Tenancy Act (1898) and the Punjab Land Alienation Act (1900). But though these Acts checked the alienations and transfers of land and removed some of the worst features of agricultural credit operations, it failed to check the growth of rural indebtedness and resulted in an immediate contraction of credit when credit was most required.

The extent of transfer of land between 1860—1900 was considerable. The process was on the increase owing to the population growth and increase in land values. The effects of such transfers were serious. The moneylender not being a farmer the transfer mostly left the old system of cultivation unaffected. The cultivation in most cases had been carried on by the old cultivator, paying a high rent instead of the old interest on his debt. Moreover, the fact that the farmer was a tenant-at-will removed all incentives to the improvement of the land. In India the transfer of land did not mean as in other countries a consolidation and enlargement of holdings.

(3) Increased Sub-division and Fragmentation of Holdings. The third tendency was the increasing [illegible] holdings. The average farm-holdings [illegible] only uneconomic but are also fragmented. This was the result of the breakup of the [illegible] the growth of [illegible] heirs, the decli[illegible] and the laws of inheritance of the Hindus which provide for equal division of property among the sons.

(4) Scarcity of Rural Labour. The fourth tendency was the scarcity of rural labour. This scarcity is only at the harvest time. This scarcity is partly due to the fact that the extra labour of the small cultivator is not available during the harvest time. The other reasons are (*a*) Increase in the area under cultivation, (*b*) the growth of large scale industries, (*c*) emigration and (*d*) the tendency on the part of substantial farmer not to work his fields with the labour himself and his family but to employ hired labour.

Q. 24. Give an account of the growth of commercialisation of agriculture in India, and enumerate the causes that made for it.

(Bom. 1978)

Or

What led to commercialisation of agriculture in India? How has it affected her economic life? (*Mad. B.A. 1977, 1978*)

Or

Why and to what extent was Indian agriculture commercialised in the latter half of 19th century?

Ans. **Meaning of Commercialisation of Agriculture.** The *new trends in trade and commerce* in the latter half of the 19th century had far-reaching effects upon Indian agriculture. The American Civil War which broke out in 1861 and lasted until 1864 and the opening of the Suez Canal in 1869 exerted a profound influence on Indian trade and commerce which in their turn affected agriculture. The crops raised from now onwards were not meant only for home market but also for world markets The Indian agriculture was no longer meant only for the production of food etc., for internal consumption but it was naturally made to subserve the new commercial policy. A revolutionary change took place in Indian agriculture towards the last quarter of the nineteenth century. From this time onwards commercialisation of agriculture began in the true sense for a good proportion of land went under the plough for purposes of exportation. Rice, wheat, cotton, jute and oil seeds crossed the borders of the village to the distant towns and foreign lands. There was created now a regular foreign market for the Indian agricultural products. This change is often known as the commercialisation of Indian agriculture. The new facilities afforded by means of communication and transportation that were coming up in this country coupled with changes in the methods of marketing, rendered the change an easier task.

Causes of Commercialisation of Agriculture. Apart from the development of (*i*) new trends in trade and commerce occasioned by favourable factors such as (*ii*) the American Civil War, (*iii*) the opening of Suez Canal, (*iv*) the *development of railways* that gave birth to the commercialisation of agriculture, (*v*) the *introduction of money economy* in the form of cash assessment and (*vi*) the substitution of rent in kind by cash rent gave a further fillip to this change. (*vii*) Moreover, the *money-lenders* were playing an important part at this time and *to pay interest* to them, the ryot was compelled to sell part of his produce.

(*viii*) Another important factor that facilitated the commercialisation of agriculture in the country was the *new irrigation policy* of the Government, especially in the Punjab where vast tracts of land were brought under plough and these consequently yielded bumper harvests of wheat. (*ix*) Above all, commericalisation of agriculture was affected on a very large scale in those districts where the crops were sown and grown chiefly for export out of the country.

This was so in the Burma rice area, the Jute area of Eastern Bengal and the Khandesh, Gujarat and Berar cotton tracts. Through the operations of exports an efficient market organisation for moving the crops quickly to the ports had come into existence. In the Berar cotton tracts there are very many centres at which, just after harvest,

large purchases are made on behalf of exporters and various mill companies. Here the cotton is generally brought to the markets by the cultivators themselves and does not go through hands of a very large number of middle-men.

In the Burma rice trade, on the other hand, Mr. Nool Paton describes the market organisation thus: "In most cases paddy is taken over on the threshing floor by the local traders, or small brokers or middle-men acting on behalf of the millers or speculators. The small local trader, known as the Jungle broker, gets advances from traders or
and goes round to the threshing floors
station rate given him by his principal."
to Rangoon to be milled. In the cotton and Jute tract these market centres also attracted steam presses while in the Punjab and also in the United Provinces, where the raw agricultural products had not to be worked up further before being exported, almost every railway station became a centre of export and attracted local traders and agents of exporters.

The writer of the Hyderabad Census Report (1911) says: "With reference to the enormous expansion of the area under cotton in Marathwara, that, when a country begins to produce the raw-materials of manufacture in place of food-crops, it has started on the road to industrialisation." This statement cannot apply to India as a whole. For here there was no large displacement of food-crops. In some tracts, certainly, the food-crops were largely ousted by the industrial cropsa but in others they gained in favour. There was to some extent, redistribution of the proportion of different crops grown in various parts of the country and particular crops were now more largely grown in those tracts to which they were most suited. The result of this process was not necessarily industrialisation; indeed it is doubtful how far such industrialisation has taken place in India. But commercialisation of agriculture undoubtedly did follow. A very large portion of the total crop now come into the market instead of being retained at home.

Towards the close of the last century Indian food-grains, especially rice and wheat commanded a ready market abroad. Indian wheat was almost all shipped to Europe, mostly meant for consumption in the United Kingdom. Rice also commanded world-wide market, not being shipped only to Europe but also to the Straits, Ceylon, East Africa, other parts of Asia, West Indies and South America. Indian rice in a way virtually penetrated every region of the globe, cotton also to begin with was shipped to U.K. and during the five years of American Civil War, India experienced boom in her cotton cultivation. But with the return of peace U.K. again switched over her purchases from the United States and India's position did not remain happy. However, Indian cotton found good customer in Japan and many a commercial agreements were signed between the two countries

rape, mustard, castor, etc. Oil-seeds occupied the fourth pride of place among India exports of all kinds during 1939-40.

Consequences of the commercialisation of Agriculture. The commercialisation of Indian agriculture did not being forth the expected results of opening up of national and international markets for agricultural products. No spurt in agricultural production took place. The change over from the rule of the East India Company to the rule of the Crown did not alter the situation materially. Even so it resulted in certain new policies towards India. The essence of these new policies was to make room for British industrial capital in India for the promotion of British-owned and British-managed concerns in India. As *R.C. Dutt* has observed, "A vast deal of attention is naturally directed to the mill industries in India, to tea, indigo, and coffee, and to mining industries, as European capital is largely employed in India in these farms.. however the number of labourers employed in these industries bears no appreciable proportion to the population of India. The problem of improving their conditions finds no solution in the encouragement given to British companies in India."

The East India Company not only broke-up the self-sufficiency of the present communities of India by destroying the manufactures of the country and by making farming the only source of the nation's subsistence. It also routed the old merchant class. In its place emerged a new merchant class who were interested only in exports and imports. The policy of the new class was to develop India as selling market for British manufactures.

The old towns were non-industrial. They were places of king's courts, pilgrimages or centres of important trade-routes. Under British rule, these towns were developed as seats of colonial economy and power to which products from the countryside were drawn for export. The markets for farm-goods did not develop at once, this required the development of a network of transport and communication. At first there developed no more than local markets for various products and consequently a closely integrated system of prices for various goods did not arise during the first half of the 19th century.

But the situation began to alter with the advent of railways. The construction of railways in India was forced upon the British rulers by two factors : (1) Frequent famines, often created havocs in particular regions for no other reason than the want of a good transport system to carry food-grains from surplus areas to the famines-stricken area. (2) The need for a well-knit transport system was undeniable even in the interests of more through commercial penetration ... side. That the latter was a very important consid... ently shown by the fact that since the Great ... countr... 1857 the railway construction in India had exper... s subseq... spurt.

The immediate consequence was the ... *national and international markets for various agr*... *of* ... *a new class of merchants*, emerged as a distinct sc... *nd*

culture responded very feebly to these forces of trade and commerce: as a matter of fact, agriculture was further depressed under this new upsurge of mercantile capital. The reason lay in the colonial character of the Indian economy and the peculiar relationship that the new merchant class was bound to bear to this economy. The new merchant class which emerged as subsidiary and junior partners of the British mercantile capital, was by its very nature *parasitic* in relation to agriculture. The increasing penetration of merchant capital into the rural economy of India did not help reorganise agricultural production on a much more efficient scale. Production for market did not bring prosperity to the peasants. It only *intensified the drain of agricultural surplus* away from the village first to the big cities and ports of India and from there to the metropolis country across the ocean. This state of affairs continued until the end of 19th century.

A corollary of the primary aim of colonial exploitation of the Indian economy was that trade was not to be free on the part of the individual peasant. Were the peasant to be independent and free to trade or not to trade, certainly he would have resisted either by withholding his products from the market or by producing nothing more than his subsistence requirement. Commercialisation of agriculture and the increasing penetration of merchant capital into the countryside admirably performed this function. It was aided and abeted by its twin brother, unsurious capital. An important episode in the history of development of Indian agriculture over the last 150 years was the story of the growth and increasing dominance of money-lenders over the village economy. Its outcome has been epitomised by the Simon Report which noted: "The vast majority of peasants live in debt to the money lender." His existence also derived importance from the fact that "the authorities regarded the money-lender as their mainstay for the payment of revenue." Thus the merchant capital and unsurious capital were the two wings of the same eagle—that of colonial exploitation of India and they between themselves completed the devastation of the peasant economy culminating in the dispossession of the peasantry and their virtual enslavement to the *sahukar*.

With the beginning of the 20th century, modern large-scale industries began to grow in India mainly by foreign capital. Although the tempo of growth of large-scale industries was very slow, nevertheless this development brought about significant changes in the composition of farm-goods. Till then food-grains had constituted almost the sole content of farm-goods produced in India. Cash crops now began to appear. This sector producing cash-crops represented the cent per cent commercial sector in Indian agriculture.

The production of cash-crops began much earlier. The beginning was mad[illegible] merchants of the Company forcibly [illegible] peasants to grow indigo the price for [illegible] British merchants themselves. This oppression of the peasantry by the indigo planters led to the great

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The famine of 1880 again brought the matter to the front. The Commission recommended the formation of an Agricultural Department to be assisted by provincial Governments, whose absence was the main cause of the failure of the earlier experiment.

Another attempt made during this decade of 1870—80, was in the direction of the establishment of experimental farms to show the value of better methods and tools and also experiment on new methods etc. Most of the attemts gave no fruits at the time because of the lack of experienced experts, the farm managers being gardeners, unsuccessful planters and other officials with no true farm training. Even when the agricultural expert was brought over from U.K. he failed, because of his ignorance of Indian conditions and the methods of the Indian farmer. The only achievements of the State were introduction of some new staples and in some cases of slightly better machinery. The State tried to better breeds of cattle and horses by organisaing agricultural shows and keeping studs. These attempts being ill-directed were also unsuccessful.

The Government attempted to cure the defect of rural credit and to enable farmer to make improvements on his land by giving him loans on easy terms. 'Taccavi" loans were given under conditions prescribed by the Land Improvements Act (1883), and the Agriculturists Loans Act, 1884. These were small loans granted by the Government at a lower interest rate to be paid in instalments. These 'Taccavi' loans were not successful because the farmers were ignorant of the terms, the loans were given only for specific purposes. The officials incharge did not grant the loans quickly and at the proper time unlike the money-lender and there was strict rigidity in the administration of the Act in the matter of collection not only of the interest but also of the amount lent. The period allowed for repayment of the loan was in many cases short Thus though the rates of interest on these loans were much lower than money-lenders these were not successful. Yet *D. R. Gadgil* writes, "In those tracts where an energetic officer administered the Act on a liberal basis and spread the knowledge of the facilities offered by Government, they generally became very popular and were largely taken advantage of, especially for well digging."

Towards the end of 1898, Dr. Voelcker was sent out to make a study of Indian farming conditions. In his report he wrote that Indian agriculture was neither backward nor primitive and that impovement was possible. He recommended the establishment of an organised system of agricultural enquiry and the spread of general and scientific

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Fisheries. Side by side with agricultural development attention was also paid to the development of fisheries. A Fisheries Department was created in Madras. Methods of fish curing were improved and the manufacture of sardine oil and fish manure were also begun.

Co-operation. Rural indebtedness and the high rate of interest charged by the money-lenders were the greatest check to agricutural development. As a remedial measure the co-operative movement was started in India with the passing of the Co-operative Credit Societies Act, 1904. To extend the co-operative activities the Act was amended in 1912.

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the Thungbhadra project and in 1860 the East Indian Irrigation and Canal Company was founded to carry out the Orissa Canal Project. Ultimately, the companies were successful as the capital cost greatly exceeded the original estimates. Finally, the Government purchased those works. A new impetus to Government construction came after 1866 when in connection with the famine policy of the time, a big scheme for Government irrigation works financed by loans was started. The Irrigation Commission of 1901-1902; appointed at the instance of Lord Curzon's Government prepared a rough programme of irrigation extension for a two decades period estimated to cost 30 mn. pounds and designed to bring into cultivation 6·5 mn. acres. They recommended the construction of protective works to save the country from famines and the protective works were later on supplemented by productive works. Most of the projects outlined by the Commission had been completed. Now all the major works are State-undertaking. This policy has been justified on the following grounds :—

(a) Incapacity of private companies to shoulder successfully the responsibility involved in the construction and management of huge irrigation works.

(b) If private companies were permitted to irrigate, a conflict would arise in allotment profits from the increased land revenue due to irrigation works, the conflict taking place between the Government and the people on the one hand, the companies on the other.

(c) If the Government permitted companies to levy rates, then a strict vigilance and control amounting to interference would be necessary, as the companies might interfere with traditional rights of the landholders.

(d) Companies would never take up protective works thus leaving to the Government only the losing part of the game.

(e) If a system of guarantee be introduced, private companies would come in numbers, but no one to take any care to exercise the slightest prudence.

(f) In an agricultural country where irrigation works contribute enormously to the development of agriculture and agricultural industry and therefore to the prosperity of the nation, it is of great importance that the instrument of irrigation should be the property of the whole nation.

Upto 1921, irrigation works were divided into three classes productive, protective and minor. Productive irrigation works are those undertaken by the government with the expectation that within ten years of their completion sufficient revenue will forth come to cover working expenses and interest charges. Most of the major irrigation systems belong to this class. Protective works are those designed to prevent local famines and increase the value of the crops and are constructed in particular areas which are deficient in rainfall and subject to frequent famines. They are financed from the current revenues. Minor irrigation works are those undertaken by the local government

for constructing, maintaining and repairing village tanks and storages which require no great capital expenditure.

Since 1921, this old classification has given place to a simple classification of irrigation works into *productive* and *unproductive* based on the financial results. For both these forms capital accounts are kept and both can be financed by loans. Any other source of irrigation for which no capital account is maintained is not included in either of these schedules.

As a result of the Montford Reforms irrigation became a "reserved" provincial subject. Only works estimated to cost over Rs. ½ mn. were to be placed before the Government of India for submission to the Secretary of State. An Advisory Central Irrigation Board was made and the Royal Commission on Indian Agriculture recommended the formation of a Central Bureau of Information for Irrigation. In April, 1945 the Government of India formed a Central Waterways, Irrigation and Navigation Commission, a central fact finding, planning and co-ordinating organisation, to examine the potentialities of India's rivers and assist in the co-ordinated and multipurpose development of rivers passing through more than one province.

In Madras, the irrigation tanks are under the charge of the minor irrigation department which works under the Collector. The function of the department is to keep the tanks in a good condition and if any extension is to be made it can only suggest to the Public Works Department. This division of responsibility naturally retarded the development of tank irrigation. In Bombay a Superintendent Engineer (S.E) was placed on special duty to investigatigate the natural resources for the construction of these works. In the Punjab a Rural Sanitary Board was formed in 1920 to plan and undertake such minor works. The Royal Commission on Indian Agriculture commended the scheme of the Bombay Government for the extension of tanks irrigation to both famine and non-famine districts. Such an agency would be able to advise and provide technical assistance.

Government irrigation works have yielded an average profit of 7% to 8% during 1918-21. In 1921, productive works yielded on an average 9%. The protective works yielded less than 1% and the minor works 4% to 6%.

In 1931-32, about 32 million acres were irrigated by Government works of which 26 million acres were irrigated by canals. Private works probably irrigated an equal areas so that between 1894-95 to 1931-32 the total irrigated area doubled. By 1941-42 the area under irrigation as a whole was 33·4 million acres.

Irrigation under Five-year Plans.

Taking into consideration the great importance of irrigation to Indian economy, high priority was accorded to the extension of irrigation facilities under our Plans. This was specially due to the urgency of increasing farm output especially the production of food ... industrial raw materials like cotton, oil-seeds, etc. W... irrigation facilities our aim of achieving self-sufficiency in

respects would remain an idle dream. That is why big irrigation projects were undertaken.

The First Plan gave the highest priority to the river valley projects, assigning them about ⅓ of its total expenditure. It was proposed to double the irrigated area in 15 years. The outlay on major and medium irrigation works was Rs. 300 crores under the First Plan, Rs. 380 crores under the Second Plan and Rs. 572 crores in the Third Plan. The Fourth Plan's provision was Rs. 1470 crores. In 5th Plan Rs. 1360 crores have been spent on providing irrigational facilities.

Before the birth of First Plan, the irrigation potential from major and medium irrigation projects was 9·7 million hectares. During 15 years of planning it increased to 18·1 million hectares. During the same period, the total irrigated area from minor irrigation works increased from 13·9 million hectares to 19 million hectares.

India has the largest rate of growth of irrigation facilities in the world during first five Plans. The exploitation of water resources has been more than doubled. The utilisation of rivers has gone upto 1910 million hectares metrers from 9 5 million hectares metrers in 1951. Similarly the effective storage capacity of all the resources in the country has increased five fold from 100 lakh acre-feet to 500 lakh acre-feet. The projects now in hand on completion will raise the storage capacity to 1,000 lakh acre-feet.

In 1850-51, irrigated area was 22·6 mn. hectares. By 1977-78 it increased to 49·78 mn hectares. Between 1950-51 and 1960-61 irrigated area increased by 40%, by 1978-79 it increased by 65%. Irrigated area formed 17% of net sown area in 1950-51, 21%, in 1960-61, 30% in 1978-79.

The Sixth Plan aims of adding another 17 mn. hectares under irrigation durind 1980-85. This will no doubt mean much for agriculture, between after this effort the country's unutilized potential will remain substantial.

Summing up

The steps taken by the Government to extend irrigation facilities may be thus summarised :—

(1) Construction of major irrigation works, including a large number of multipurpose river valley projects.

(2) Medium irrigation works not involving large outlay.

(3) Construction and repair of minor irrigation works like wells, tanks, bunds, etc.

(4) Spreading a network of tube-wells, particularly in North India.

(5) The Government has been liberally giving grants and subsidies for minor irrigation works.

(6) Special emphasis was put on irrigation in the Community Development project areas.

All this is bound to make a great difference to the prosperity of the country. These projects are thus the necessary weapons for fighting poverty that stalks the land.

"The country is in the grip of the Mahajan. It is the bounds of debt that shackle agriculture." —*Wolff.*

9

RURAL INDEBTEDNESS

Q. 27. Examine the causes and extent of rural indebtedness. Review the policy of the Govt. to deal with the problem.

Or

Narrate in brief the history of Govt. efforts in India to deal with the problem of agricultural indebtedness. *(Bom. 1976)*

Or

Briefly describe the history of the Govt. measures to tackle the problem of rural indebtedness. How far did they succeed ? *(Bom. 1981)*

Or

Discuss the problem of rural indebtedness in India and the measures that have been adopted to solve it. *(Bom. 1978)*

Or

Critically examine the efficacy of Govt.'s efforts to tackle the problem of Indians rural indebtedness during the period 1914-17. *(Pb. B. Com. 1976, Bom 1974)*

Ans. Owing to the fertile land, surplus of labour and inherited agricultural skill, India appears to be marked out by nature as a prosperous agricultural country. And yet our agriculture is in a very poor condition and the lot of the average farmer in India is not far away from utter poverty. The presence of crushing debt is universally admitted to be one of the major causes of this state of bad affairs. "The country is in the grip of the Mahajan. It is the bounds of debt that shackle agriculture." The existence of huge volume of unproductive debt which prevents improvements in any direction and constitutes one of the most serious problems of the Indian agricultural economy.

Nature and Extent of Debt. It is estimated that 35% of the total debt is productive, 42% unproductive, and 23% useful but unproductive. The most serious effect of this heavy indebtedness is a rapid fall of the land owing cultivators. In 1931 there were about 9 mn. Ryotwari

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:. But this Bill did not become law. In 1931, the Punjab
·gulation of Money-lenders Act. United Provinces, Orissa
nacted legislation in 1939 towards the same end. These
·d for the registration of money-lenders, regulation of
:tation of the rates of interest and other miscellaneous

:sures **for Restricting the Alienation of Land.** The
nission stated that the increase of debts was due to the
alienation possessed by the farmers and suggested that
· alienation to prevent further indebtedness. As a result,
nd Alienation Act, 1900 was passed. For the purpose
: population of the Punjab was classified under groups
1 tribes. A member of the non-farming tribes was not
btain land from a farmer. He could not take a mortgage
n twenty years Transactions between members of the
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(8) **Ancestral Debts.** It may also be pointed out that the debt is ancestral. As it is said the Indian farmer is born in debt, lives in debt and dies in debt leaving behind debt.

(9) **Questionable Practices of Money-Lenders.** To these may be added the questionable practices of the money-lenders. The money-lenders followed many questionable practices like deducting advance interest, getting gifts for doing business, taking of thumb impression on blank paper, manipulating accounts, executing documents for larger sume than those actually given, taking of conditional sale deed, etc. The rates obtained by the money-lenders were high.

Conclusion of Royal Commission. We may quote the conclusion of the Royal Commission on Indian Agriculture on the subject. "The general expansion of the credit of the land-holder, his illiteracy and the temptation he has to relieve present necessities by mortgaging his future income and even his capital, have on the one hand, led to the increased indebtedness, while on the other hand, the position of the money-lender has been strengthened by the rapid development of commerce and trade, the introduction of established law and permanent Civil Courts and the enactment of such measures as the Contract Act."

Government Policy Regarding Rural Indebtedness

(1) **Measures to Avoid Unnecessary Debts.** It was felt that the best way of relieving rural indebtedness was not by enlarging the means of credit but rather by accompanying every increase of credit by an attempt to educate masses in thrift and mutual control. Otherwise, the more mony they could get, the greater would be the expenditure by the farmers on their customary extravagance. Hence the greatest need has been of controlled credit. It was also necessary to enable the farmer to take a more business-like view of their indebtedness and to face the money-lender on a more equal threshold. Suspension of land revenue in years of scarcity and the starting of village post-office savings banks to promote thrift have gone some way in avoiding unnecessary debt.

(2) **Improvement in Civil Law.** To shield the farmer many alterations were made in the civil law in the matter of executing the decrees against farmers. Their implements, catttle and materials of the

cultivators paying land revenue of Rs. 100 and below. In 1934 their number was reduced to 5·5 mn.

In 1875 the Deccan Riots Commission came to the conclusion that 33% of the occupants were under debt and the average debt per head was Rs. 371 for Bombay. Sir MacLegan estimated Rs. 300 crores as total agricultural debt in 1911 for British India. In 1925, Darling put the figure at Rs. 600 crores. According to the Central Banking Enquiry Committee the figure was 900 crores in 1931. In 1937, the Reserve Bank of India estimated the indebtedness as Rs. 1,800 crores. According to the Reserve Bank, during the Second World War, because of the high price of farm produce, the agricultural debtors were enabled to pay off their debts either out of the increased income or by the sale of a part of their lands. But this is true only of the big zamindars. The ordinary farmer has actually suffered from the inflation. Moreover, since 1944 the indebtedness has been again mounting. The seriousness of the debt lies not in its volume nor in its rate of growth but in the fact that the greater part of debts consists of unproductive debt.

Causes of Rural Indebtedness.

(1) **Better Position to Borrow.** The rights of the land-holders have been really ascertained as a result of land settlement policy of the Government and consequent upon the various improvements, the value of land increased as a form of security. The farmer's credit was more definite and of greater value. He was in a better position to borrow and because of ignorance and extravagance he did borrow the maximum that he could.

(2) **Farmer's Increased Credit.** The farmer's credit increased due to rise in agricultural prices, rents and land values. This, in turn, was the result of stable rule, the new transport and the growth of towns. British law also gave the peasant the rights of absolute ownership and free transfer of land.

(3) **Unremunerative Farming.** The excessive pressure of population on the land and the consequent sub-division and fragmentation of land; the decay of cottage industries and the lack of subsidiary occupations to supplement farm income; the ill-health and inefficiency of the farmers; the insecurity of the crops and the loss of cattle through famine and disease—all these made farming unremunerative. The peasant, therefore, was forced to borrow.

(4) **Heaviness of Land Revenue.** According to R. C. Dutt the heaviness of land revenue with the rigidity of its collection was one of the causes of rural indebtedness. Even in periods of famines and depression there was little or no remission of land revenue.

(5) **Increased Standard of Living.** There has been a change in the standard of living of the peasant. There was a general rise in the standard of living of the farmer without corresponding increase in their purchasing power. Hence they resorted to borrowing.

(6) **Conditions Necessary to Induce the Money Lenders to lend.** establishment of a strong and centralised rule and new judicial

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system by the British created the condition necessary to induce the money-lenders to give loans against proper security and get high rates of interest. Money lenders could get the debtors arrested or get their properties attached. Earlier it was not customary for the creditor to sieze the land of his debtor. But with the steady rise in land values and with the facilities available for the transfer of land, it became profitable and easy for the money-lender to lend and realise.

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agriculturists household were exempted from attachment or sale. The farmer was exempted from arrest from a decree of the court and was given concession of the repayment of his debt.

(*i*) **The Deccan Agriculturists Relief Act, 1879.** It permitted the courts to go behind the contract and change it in favour of the farmers so far as to reduce high interest-rate to prevent the sale of land unless specifically pledged and to restore the land to the farmer even when there was a sale-deed between farmer and the money-lender. The Act, made it obligatory on the money-lenders to show accounts and to give receipts. But the Act has not been found to be effective and has been found positively injurious. It led to abuse of concessions on the part of farmers, enhanced irigation, made the money-lenders more guarded and resulted in the decline of rural credit. According to the Famine Commission (1901) the Act had been followed by the more frequent transfer of property by both sale and mortgage. The Bombay Banking Enquiry Committee recommended its repeal and being replaced by a new Act containing a few provisions to safeguard the interests of only small and actual farmers.

(*ii*) **The Usurious Loans Act, 1918.** As amended in 1926, restrained the extortion of money-lenders by fixing the maximum rate of interest and by enabling the mortgagor to insist on his right of redemption. The Royal Commission [illegible] was practically a dead letter [illegible] Committee held that the Ac[illegible] advantage of farmers and shoul[illegible]

(*iii*) **A Simpler System of Insolvency.** There was an increasing public opinion in favour of a simpler system of insolvency and this [illegible] was not possible.

(*iv*) **Legislation regarding the Licensing and Control of Money-lenders.** The Punjab Regulation of Accounts Act, 1930 obliged all persons, whether money-lenders or shop-keepers who advance loans in money or in kind at interest to keep an account for each debtor and to supply him every six months a signed statement of the account of [illegible] detailing all the loan transactions of the past [illegible] a debtor, the creditor [illegible] not to be awarded his costs [illegible] Central [illegible] ing this [illegible] Madras Act, the creditor was to furnish a statement of accounts to his debtor only it the latter asked for it. The Bihar Money-lenders Act required all money-lenders to register themselves. The Bombay Money-lenders Bill, 1938 required to regulate money-lending in a more thorough

going manner. But this Bill did not become law. In 1931, the Punjab passed the Regulation of Money-lenders Act. United Provinces, Orissa and Bengal enacted legislation in 1939 towards the same end. These Acts provided for the registration of money-lenders, regulation of accounts, limitation of the rates of interest and other miscellaneous aspects.

(3) Measures for Restricting the Alienation of Land. The Famine Commission stated that the increase of debts was due to the full power of alienation possessed by the farmers and suggested that restrictions on alienation to prevent further indebtedness. As a result, the Punjab Land Alienation Act, 1900 was passed. For the purpose of this Act the population of the Punjab was classified under groups known as farm tribes. A member of the non-farming tribes was not permitted to obtain land from a farmer. He could not take a mortgage for more than twenty years. Transactions between members of the farm tribes were not affected by the Act. The Act, while successful in preventing the expropriation of the peasant proprietor by the money lender, retarded the flow into agriculture of enlightened outside enterprise and led to a contraction of credit and the appearance of the rentier and the agriculturist money-lender. In 1903, Bundelkhund Land Alienation Act was passed to restrict the right to transfer land. Similar restriction were imposed on the alienation of land by aboriginal tribes in C.P. and Bombay.

(4) Debt Conciliation and Liquidation. Granting of some immediate relief to the farmers from their indebtedness become a serious broblem during the 1930's because of the heavy fall in the price of farm products. Debt Conciliation Acts were passed in C.P. and Berar in 1933, and soon in other provinces. In 1936, Madras passed the Madras Debt Conciliation Act. Some native States like Travancore, Cochin and Mysore also passed such laws. It must be noted that Conciliation Boards have had no coercive power to force agreement. Under the Madras Act, if the creditor did not agree the debtor was given a certificate which relieved him from paying the expenses of a civil suit, if the creditor went to the Court. The creditor could not get more than 60% interest after conciliation had failed. In 1938 Madras passed the Debt Relief Act providing for compulsory scaling down of debts. The Central Provinces and Berar Relief of Indebtedness Act, 1939 introduced compulsory methods of lowering down the debt. The Bombay Agricultural Debtors' Relief Act, 1939 was put into force in 1941 as an experimental measure. This Act also provided for the compulsory reducing of agricultural debts. The U.P. Agriculturists' Debt Redemption Act, 1939 was also passed with the object of effectively scaling down the debt.

(5) Future Supply of Credit (*i*) *Taccavi-Loans*. Taccavi loans were granted to farmers under the Land Improvement Act (1883) providing for the grant of long-term loans for permanent improvements on land such as wells and embankments, etc., and under the Agriculturists' Loans Act (1884) providing for short-term loans for current

agricultural needs such as the purchase of seeds, cattle, manure, implements, etc. A fundamental defect of the Land Improvement Act was that no loan could be given under it fc[illegible] or consolidation of holdings. Unde[illegible] Madras (1935) and U.P. (1934) loans c[illegible] for the redemption of old debts. As a general means of financing agriculture the system was a failure.

The Sub Committee appointed in 1944 under the chairmanship of [illegible] the Policy [illegible] port on the [illegible] both long term and short-term provided, made detailed recommendations. The recommendations covered adjustment, reduction and compounding of old debts, mode and extent of State finance in normal times, co-operative movement, private financial agencies and their regulation and rehabilitation.

(*ii*) **Supply of Controlled Credit.** The MacLagan Committee, the A[illegible] Reserve Bank of India and the [illegible] were unanimous in their opinion [illegible] To extricate the farmer without guarding against a relapse into debt was a sheer waste of effort. The only effective means of controlling the debt is to fortify the former against future debt. This can be attained only by increasing farm [illegible] and better [illegible] ncreasing [illegible] ere. Co- [illegible] e peasant [illegible] he *Royal* [illegible] itation in [illegible] the rural [illegible] owth and [illegible] based on [illegible] mselves."

Conclusion. In practice, it is noticed that this protection is not of much use. This is because the ignorant and illiterate farmer does not know the provisions of these legislations. He does not have the money to go to the court of law for protection. The social status of the borrower is also much lower than that of the money-lender. Hence, most of the borrowers do not feel strong enough to challenge the money-lendres in courts of law. Therefore, most of the provisions have remained on paper. Further, it is said that prevention is better than cure. Hence attempts should be made to prevent farmers from taking loans. This can be done by impressing on the farmers to cut down their social expenditure on marriages, funerals, etc.

"Salvation of India lies in Co-operation."

—*Darling*

10

CO-OPERATIVE MOVEMENT

Q. 28. Give a short history of the Co-operative Movement in India. *(Rajasthan 1976, 72 ; Lucknow 1978,71 ; Allahabad 1971 ; Jodhpur 1970 ; Bangalore 1972 ; Pb. B.A. (Hons) 1976, Jiwaji 1973 ; Kuru. Honours 1977)*

Ans. The Co-operative Movement in India which today is 78 years old first took a concrete shape in 1904 when the Co-operative Credit Societies Act—a measure designed to combat rural indebtedness was passed. Sir Frederick Nicholson's name occupies and will ever occupy a conspicuous place in the history of the movement in this country. Sir Nicholson who is noted for his famous report of 1895-97 was appointed by the then Madras Government in 1892 to study the methods of land and agricultural banks which were successfully working in Europe and to report to Madras Government regarding the suitability and usefulness of such institutions in this country. Sir Nicholson made elaborate investigations and on the basis of his observations recommended to the Government in his report the establishment of the Co-operative Credit Societies parallel to those founded by the Reiffaisen in Germany.

The Madras Government taking to the attitude of hesitation failed to take any concrete step on the report of Sir Nicholson. The report, however, at the instance of the Government of India was circulated to other provincial governments for due consideration and action. Un-co-ordinated and scattered efforts were made by Sir E. MacLagan and Captain Crosthwaite in the Punjab, by Mr. Dupernex in the United Provinces and by Mr. Lyon in Bengal. The recommendations of the Famine Commission of 1901 pertaining to the setting up of Raiffeisen type of banks gave a little more additional stimulus to the movement in this country. Lord Curzon, the then Viceroy of India appointed thereupon a committee under the able chairmanship of Sir Edward Law to go into the whole question and to make proposals. In its report the

committee recommended the introduction and promotion of the co-operative credit societies by introducing a necessary legislation. This was given effect to by enacting the Co-operative Credit Societies Act in the year 1904.

The Act of 1904.

The main provisions of this Act were : (*i*) Any ten persons could start a society. Rulral societies were to have four-fifths of their members from agriculturists. Urban societies were to have four-fifths of their members from non-agriculturists. (*ii*) The main objects of a society were to raise deposists and loans from members and others and grant loans to members and also to other co-operative credit societies. (*iii*) To regulate and control societies an office of the Registrar of Co-operative Credit Societies was set up in each province. (*iv*) The accounts of every society were to be audited by the Registrar's office free of charge. (*v*) The liability of members of a rural society was to be unlimited and of urban societies either limited or unlimited. (*vi*) Rural societies were not to pay dividends save bonus in some cases while urban societies could pay dividend after carrying one-quarter of profits to reserve fund. (*vii*) Loans could be made only to members and usually only on personal or real security. (*viii*) The interest of any one me ber in the society's share capital was strictly limited. Societies registered under the Act were exempt from fees payable under the Stamp, Registration and Income Tax Acts.

Inadequacies of the Act of 1904.

As a result of passing of the Act of 1904 the growth of the credit societies was almost phenomenal. During the short period of only six years after the enactment of the legislation by 1911 the number of the societies jumped up to over [illegible]
three crore mark. However, [illegible]
glaring inadequacies of the Act. [illegible]
legal portection to the non-credit co-operative societies. Secondly, the Act failed to provide any scope for the federations of co-operative societies in the matter of mutual supervision and financing. Thirdly, the classification of the societies into 'rural' and 'urban' was arbitrary, unscientific and consequently caused much inconvenience and confusion in its wake.

The Act of 1912.

The Act of 1912 removed the defects of the Act of 1904 as under :

(*i*) No-credit forms of co-operation affecting purchase, sale, production, insurance, housing, etc. were recognized.

(*ii*) New organiz[illegible] audit and supply of capital were recognized : (*a*) [illegible]
and audit ; (*b*) central [illegible]

(*iii*) Instead of the old distinction between rural and urban societies, a more scientific distinction was made between those with limited liability and those with unlimited liability. The liability of a society, of which the members were registered was to be limited. Societies which

aimed at provision of credit and the majority of whose members were cultivators were to have unlimited liability. The question of liability in other societies was left to the option of the members.

(*iv*) After providing ¼ of the profits to reserve funds the societies were allowed to declare dividend.

The number of Co-operative Credit Societies rose from 41 in 1905 to 1897 in 1911. As a result of the new Act, the number of societies rose rapidly so that by 1914, there were as many as 15,000 such societies with a membership of 695,000.

The Maclagon Committee Report.

The movement entered into the third stage in 1914 when the Government appointed a committee under Sir Maclagon to examine whether the movement especially in its higher stages and financial aspects was progressing on sound lines and to suggest measures for improvement which seemed necessary." The report came in 1915. The Committee made some proposals of far reaching importance especially in regard to higher financial structure for the future development of the movement. As a result Provincial Co-operative Banks were started in all provinces.

Provincialisation of the Movement.

The movement entered the fourth stage with the passing of the Mont-Ford reforms in 1919. Co-operation become a Provincial subject in the Transferred Departments under Provincial Ministers. Great encouragement was given by them and co-operative institutes, unions and federations for propaganda were formed.

Another important landmark in its history has been the institution of Committees of Enquiry by the various Provinces like U.P., Madras, C.P. and others. The Committee appointed by the Madras Government in 1927 made many valuable proposals and recommended the division of agricultural loans into short and long-term, starting of co-operative societies for the depressed classes under the Labour Department and the transformation of Loan and Sale Societies into full fledged Marketing Societies. It also recommended the formation of a Central Land Mortgage Bank to give stability and to co-ordinate the existing primary Land Mortgage Banks.

The Royal Commission of Indian Agriculture made a study of the co-operative movement and opined that the chief causes of the failures which have so largely retarded the growth of this movement were the lack of requisite education and adequate supervision and made a number of valuable recommendations. It was of opinion that single purpose societies were to be preferred to societies with multi-purposes.

The various Provincial and the Central Banking Enquiry Committees made proposals for improving the movement. Further many Provinces like Bombay in 1926, Burma in 1927, Madras in 1932, Bihar and Orissa in 1935 and Bengal in 1941, replaced the Act of 1912, by Provincial legislation.

In 1923, a start was made for providing long-term credit. The first Co-operative Land Mortgage Bank was started at Jhang in Punjab. The rapid growth of the movement between 1919 and 1929 has been characterised by Mr. Pantulu as "a period of unplanned expansion." The number of societies rose from 28 thousands to 94 thousands in between 1919-1929. The formation of a non-official association of all the co-operrtive societies in 1929, called All India Co-operative Conference of Provincial Institutions and Banks, was an important step forward in the growth of this movement.

The Great Depression

The Great Depression of thirties affected the movement adversely. The movement came to a moribund state. There was a slump in farm prices. The dues of the co-operative societies became frozen as the farmer was not in a position to pay off his old debts but wanted fresh instead. It appeared as if the movement was decaying.

Establishment of R.B.I.

The establishment of R. B. of India in 1935 opened Agricultural Credit Department but it was not liberal in extending a helping hand to the co-operative movement.

World War II and its Effects on the Movement.

The movement was still having a tough fight with the reactionary forces for its progress when the global war broke out in 1939. It proved a blessing in disguise for the onward march of the movement in the country. The rise in the prices of the agricultural produce that followed the outbreak of the war eased a difficult situation for the movement. The agriculturists being as a whole better off, they were in a position to pay their past debts to the co-operative societies. This resulted in a slight improvement in the working of the co-operative movement. War gave a fillip to growth of the movement in another direction too. It promoted the growth of consumer's co-operative stores and marketing societies as a safeguard against the profiteering and black marketing that were rampant during the war. A number of of small industries, like woollen and cotton, hand-loom weaving assisted by the Government grants organised themselves on co-operative lines. By 1941 the number of co-operative societies had risen to 124,000. In 1943-44 the number shot up to 155,000, while in 1945-46 it crossed the 159,000 mark. The total membership also recorded an increase from 5·5 lakh in 1941 to 8·4 lakhs in 1945.

In 1945, a committee known as Saraya Co-operative Planning Committee was appointed which among other measures, recommended the formation of multi-purpose instead of single purpose to co-operative societies.

Independence and after.

The attainment of Independence started a new era in the development of co-operative movement. The State has begun to associate co-operatives with economic growth.

The major development in the field of co-operation since Independence has been appointment by Reserve Bank of All India Rural Credit Survey Committee in 1951 which gave its report in December 1954 that only 3% of total borrowings were to be supplied by co-operatives. It was in 1954 that the Reserve Bank of India accepted the recommendations of the All India Rural Credit Survey Committee and gave a boost to the movement. State Governments were made to participate financially with all co-operative banks and large co-operative societies. The State Bank of India was set up, after nationalising the Imperial Bank of India, to promote banking habit in rural areas and to help co-operative marketing and processing societies. The R.B.I has been instrumental in the co-operative societies giving up their emphasis on credit only but diversifying their activities. Much attention has been given to the training of co-operative personnel, so that the movement may be managed by properly trained and socially-motivated persons. In accordance with its recommendations Reserve Bank Act was amended in 1956 to enable the Bank to set up 2 funds, viz. (1) *The Agricultural Credit (long-term operation) Fund*, (2) *The National Agricultural Credit (stabilisation) Fund*. A National Co-operative Development and Warehousing Board was established in 1955. A Central Warehousing Corporation came into being in 1957. State Warehousing Corporation have been set up to construct and maintain Warehouses in States to promote marketing. Co-operative farming has been accepted as the future pattern of Indian agriculture. Greater reliance on the adoption of co-operative principle has been put for the encouragment of small scale and cottage industries.

For the reorganisation and development of co-operation, provision was made for Rs. 34 crores in the Second Plan, Rs. 77 crores in the Third Plan and Rs. 258 crores in the Fourth Plan. In the Fifth Plan sum of Rs. 376 crores was allocated for the programme of co-operative movement. Now during Sixth Plan Rs. 495 have been allocated for this purpose.

Co-operative societies of all types increased from about 1·8 lakhs in 1950-51 to well over 4·2 lakhs in 1981-82. The number of primary agricultural credit societies was 2·10 lakhs. These societies covered about 88% of the total rural population and their membership was 390 lakhs and their working capital amounted to Rs. 1390 crore nearly.

During 1950-51 to 1981-82 number of co-operative societies more than doubled, membership more than trebled, share capital increased by 10 times, working capital multiplied by 12 times.

There has been a substantial increase in the provision of agricutural credit through co-operatives. The short and medium credit disbursed increased from Rs. 22·90 crores in 1950-51, to Rs. 345·50 crores in 1965-66, to Rs. 578 crores in 1970-71, to Rs. 755 crores in 1981-82.

Territorially, the Movement has taken better root in the peninsula where we have 3/5ths of the entire membership against only 2/5ths of the total population of the country. Coorg has made the greatest progress, with every village having a co-operative society and these touching

every phase of economic life. Maharashtra, Gujarat, Tamil Nadu, Punjab and Rajasthan are areas of good progress, with over 1/4th of the total families having membership of the co-operative societies. New Co-operative Acts have been passed in many States amending the old Acts. The notable features of this recent legislation are broadening the base of the co-operative movement, increased democratic control, flexible rules regarding reserve fund, making unlimited liability optional in respect of agricultural credit societies, insertion of provisions regarding amalgamation and division of societies, providing safeguards for the recovery of advances made by co-operative societies to members, and so on.

Q. 29. Account for the slow progress of the Co-operative Movement in India. What suggestion have you to offer to strengthen the Movement ? (*Cal. 1977 ; Jammu 1978 ; Allahabad B. Com. 1972 ; 1973 ; Kuru. B. Com. 1978 ; Pb. B.A. (Hons), 1977 ; Srinagar 1973; Agra 1981*)

Ans. Barring the recent rapid growth under the stimulus of Government support and of the high prices of farm commodities, the progress of the Co-operative Movement has been very poor. We find that the working capital per society, the share capital per member and deposits per society as well as per member are even at present very low. The average number of members per agricultural Credit Society in 1981-82 was 240 and the working capital per society's a little over Rs. 81,000. The share capital per society was as low as Rs. 15,400 while the share capital per member amounted to Rs. 80 only. Deposits per society were Rs. 5500, while per member they amounted to just Rs. 30. It is clear that the agricultural Co-operative Credit Societies have not contributed much in the way of savings to resources of the movement. The societies have functioned mainly as institutions through which assistance to farmers from outside has been channelled. Broadly speaking two sets of factors have worked to the detriment of the Movement. These may be called the *Adverse External Circumstances* and *Internal Defects*.

Adverse External Circumstances

(1) **Neither Voluntary, nor Co-operative in Nature.** "The co-operative credit societies which were started since 1904 were not voluntary, in the sense that they were spontaneously started by farmers motivated by self-interest and promotion of common welfare. They did not spring from the people themselves. People did not come forward to organise societies to satisfy their needs. On the other hand, the movement took the form of a government department, started, controlled and managed by the Government. The villagers considered the co-operative societies as lending agencies of the Government. The Government officials who ran the movement were often ignorant of the ideals of co-operation. They were neither properly trained, nor were they aware of the needs of the farmers. It was correctly stated that the Government was the Brahma, the Vishnu and Shiva of the co-operative movement."

(2) **Lack of Co-operation on the part of the Farmers.** The Indian farmers have been largely illiterate, ignorant and conservative. They

are victims of caste and creed. Many of them did not understand the [illegible] objects of co-operation. They never realised that co- [illegible] nt to improve their lot. The [illegible] as the basis of the village credit [illegible] join the movement. The small farmers owed blind allegiance to the landlords. But these landlords did not care much about the success of the co-operative movement. Nor did they take genuine interest in promoting welfare of the farmers. The co-operative movement did not succeed because of the absence of the willing and complete co-operation from the farmers.

(3) **Opposition of Vested Interests.** Powerful vested interests in the village such as the money-lenders, traders and landlords opposed the co-operative movement and took every opportunity to discredit it. Sometimes, they actively plotted for its failure, In urban areas, co-operative consumer societies faced bitter opposition and hostility of traders.

(4) **Wrong Attitude of the Government.** The Government was perfectly justified in thinking that the Indian farmers could be helped only through co-operation and whatever they did in promotion of the co-operative movement was more than justified. But the unfortunate mistake the Government made was to convert the movement into a Government department with all its rigidities and delays. The tendency was to officialise the movememt too much and leave too little to private initiative. Moreover, the Government put too much emphasis on quickening the pace of the movement instead to consolidating it. The Government did not take any interest in improving the financial strength of the societies particularly the village credit societies.

(5) **Poor Morale.** Weakened popular morale has been another handicap of the Co-operative Movement.

(6) **Precarious Nature of Agriculture.** The dependence of agriculture upon climatic conditions is a difficulty which the co-operative societies cannot overcome unless they have sufficient reserves to carry them through several bad seasons.

(7) **The Great Depression.** The Great Depression of thirties caught the Movement almost unwares. It not only brought the Movement to a standsill, but resulted in much disillusionment and despair.

Internal Defects

Apart from the above-mentioned adverse circumstances with which the Movement has to contend, the blame may also be put on the manner in which the Movement itself has been conducted and has grown. The following are the main defects :

(1) **Too much Emphasis on Credit.** These has been too much emphasis on the credit aspect. But so long as the business of farming is not made profitable with the help of other types of co-operation like marketing, purchase; etc., mere credit co-operation cannot meet

with a soccess. This fundamental defect in the very nature of co-operation in India has now been fully realized. The All-India Rural Credit Survey Report has therefore, recommended the integrated scheme of rural credit in place of merely credit co-operation.

(2) **Restrictive Credit.** The co-operative credit societies gave loans only for agricultural operations. They did not help the farmers to meet all their credit requirements. The farmers required loans to meet many of their other requirements and for those they had to approach the money-lenders. *In other words, the co-operative credit societies should have met all the requirements of the farmers, otherwise they would not receive full loyalty of the farmers.* This meant that the purpose for which co-operative credit societies were started—*viz.*, to eliminate the money-lenders and save the farmers from their clutches—*did not succeed fully.*

(3) **Small Size.** The size of the primary units has been very small. The area of their *operations has been limited. The liability* has been unlimited. Too much has been expected from honorary workers. All this was bound to react adversely on the successful working of the co-operative societies.

(4) **Inefficient Management.** The management of most of the societies has been in the hands of illiterate, ignorant, and ill-trained office bearers who were unfit for the work entrusted. "Accordingly, *in the adult classificatio* ... societies, the bulk of them continue ... *.e.*, with very unsatisfactory working ... ly as 99·35% of them belonged to thi ... portion was quite high in several ot ... Orissa 81%, *Bihar 80% and West Bengal 74%).*

(5) **Party Strife.** Party strife has been the bane of many societies. *Either such a society will not do much work or there would be favouri*tism and nepotism in the the grant of loans, thus restricting the benefits to a few favoured members. Communalism is another factor eating into the vitals of the Movement.

(6) **Excessive Overdues.** Till favourable conditions were created by high price of farm goods during the last 25 years, a very disquieting feature of most societies had been in respect of their excessive overdues.

(7) **Unproductive Loans.** Large loans have very often been given for unproductive purposes to members who may have concealed their old debts. Such loans could not be repaid punctually and consequently the overdues accumulated. The management has often been reluctant to take action against the *defaulters.*

(8) **Window-dressing.** The office-bearers would not unoften *manipulate the accounts so, as, to show lesser overdues. For this,* window dressing is resorted to and is possible because of defective audit. Loans due are shown to have been paid in the books and new loans are entered to have been made thus claiming good rate of

recovery as well as of new loans. Owing to defective audit and inspection embezzlement by dishonest management is very common.

(9) **Corruption.** Favourtism in grant of loans, corruption, dishonesty, unpunctuality of payments and fictitious repayments are all common features of the Movement.

(10) **Absence of Thrift.** Thrift is the backbone of co-operative movement and really co-operation and thrift go hand in hand. But unfortunately our people do not appreciate the value of thrift. Extravagance nullifies many advantages of co-operation.

(11) **Financial Weakness.** Co-operative credit societies did not have sufficient funds. It was originally planned that the members would save and deposit their savings and thus contribute a large share of the working capital of the credit societies. But the societies failed to promote thrift among the farmers mainly because of their poverty. The Central and the State co-operative societies were orgainsed to help primary credit societies. The Reserve Bank was always willing to lend to the co-operative banks and at concessional rates of interest, but even this facility could not be taken advantage of by the State Co-operative Banks till 1950-51. Lack of funds was, therefore, the major weakness of the co-operative credit movement in India.

(12) **Dependence on External Finance.** Dependence on external sources of finance is another serious defect. Societies have mostly failed to devolop habits of thrift. The deposists with them are very small. A State-wise analysis of working capital shows that the ratio of deposits to working capital is less than 6% in the case of as many as 11 States. The credit societies depend largely for their working capital on central financing agencies, and these agencies, in turn, depend on the Reserve Bank of India and the State Governments. This obliges central financing agencies to charge high rates of interest [illegible] cases as high 12·5% or even [illegible] the primary societies continue to [illegible] non-members or borrowed from secondary co-operative societies, they remain only quasi-co-operative.

(13) **Defects of Central Agencies.** The secondary institutions, *viz.* the State Co-operative Banks and the Central Co-operative Banks which are a very essential link in the whole organization have also not been free from defects. For example, both these types have been indulging in commercial business. By their very nature they are all ill-qualified to engage in commercial business. These secondary institutions also are to a large extent dependent on external finance and this dependence has of late been growing still greater. For example, the proportion of Reserve B[illegible] State Co-operative Bank[illegible] 1957-58. The Central Co-[illegible] position. For example, [illegible] of the Central Co-operative Banks did not come up to the minimum

standard recommended by the Reserve Bank in regard to their paid-up share capital and working capital.

(14) **Helping the Rich.** The co-operative financial assistance does not reach those who require the most. On the other hand, it flows towards those who are already rich and require no assistance. This is due to favouritism and also due to the fact that credit-worthiness not purpose-worthiness has been the criterion of advaning loans.

(15) **Uneven Regional Development.** *It is also a defect of the* movement that its progress has not been uniform in all the States as shown by the coverage.

(16) **Co-operative Credit has not been the Controlled Credit.** Almost all the members join the society merely to secure money from it and few really understand the need of restricting credit for the productive purpose. The efficiency of co-operative finance would be increased largely if the society has control on the produce of the member on one hand and on the other can ensure the proper use of loans given by it.

(17) **Failed to Serve the Neediest Strata.** The Agricultural Commission remarked, "Except in the Punjab, Bombay and Madras, the Movement in the major provinces has so far reached only a smal part of rural population."

The Times of India News Service recently brought to light glaring defects of the movement : "Feudalism, feudalistic village leadership and administrative inefficiency continue to be the base of the co-operative movement in Bihar. Loans taken from central co-operative banks have been misused by office-bearers for private trade. There is a smell of shady deals and big swindles in Madhya Pradesh. The money has gone into the pockets of the unscrupulous. The beneficiaries, of course, include officials. The co-operative societies which are expected to relieve the hardship of the poor, indulged in the most vicious form of profiteering and hoarding. Many influential individuals are said to have made lakhs of rupees in what is known as the Gulabi Gram Scandal. The story cannot be different in other States"

[illegible] or co- [illegible] One [illegible] itali- [illegible] other [illegible] nber- [illegible] ly 25 million by the end of 1978. Also, against short and medium loans target of Rs. 710 crores, the loans advanced amounted to only Rs. 390 crores and long credit only Rs. 110 crores as against Rs. 200 crores. It is obvious that unless fresh and determined efforts are made, the targets laid from time to time would not be realised.

Suggestions.

The existence of these difficulties and defects should not, fill our minds with gloom and despair. As the Royal Commission on Agriculture

have put: "If Co-operation fails, there will fail the best hope of rural India." Fortunately, co-operation has spread to many new fields and extended the old ones. Both the Government and the people have assigned a very important place to co-operation in the country's programme not only of economic growth but also of the national reconstruction. The following main lines of reform may be followed.

(1) **Multi-purpose Basis.** The most important line of reform is the reconstruction of primary rural societies on the multi-purpose basis, *i.e.*, into service co-operatives. The old societies with a single object must give place to the multi-purpose co-operative societies.

(2) **Increase in Size.** Co-operative society should be organised on the basis of village community as the primary unit. Where villages are very small, a number of villages covering a population of about 1,000 should be joined together for the purpose of formation of a village co-operative society. There should be flexibility in determining the size of the population to be served by a village society, but care should be taken to ensure the essential characteristics of a co-operative society.

(3) **Production Plans.** In addition to the primary functions such as provision of credit and supply of agricultural and other require- ... ate and implement the ... grant of credit should ... farm output. Every ... the village should be able to get the necessary credit for obtaining supplies of fertilizers, improved seeds, etc.

... should act as agents for the sale of farm produce.

(5) **Reorganisation of Central and State Banks.** The existing Central and State Co-operative Banks should be reorganized. The Central Banks are financially weak. This weakness can be remedied for example, by the amalgamation of weak banks and by other methods. The State Co-operative Banks should also play a larger part than before in directing the whole movement. The Reserve Bank has now been more and more willing to offer increasing financial assistance to the co-operative movement. This generous offer can be availed of to an increasing extent only if the secondary co-operative agencies are strong enough.

(6) **Tap Local Savings.** The society should tap local savings. The will enable them to lend to their members at cheap rates and to function without much dependence on outside agencies.

(7) **Training.** The staff of ... tution must be given intensive ... and banking systems to enable ... A beginning was made by th...

Training College for co-operative personnels. This has been *sponsored* and is being subsidised by the Reserve Bank of India. Five centres for the training of intermediate personnels have been *started*.

(8) Non-official Control. The movement, must increasingly be in the hands of non-officials, who must be encouraged. Government officials should be withdrawn from the Boards of Directors of co-operative organisations.

It is now felt that to make the co-operative movement go on healthy lines, its voluntary character must be strengthened so that it becomes self-reliant. For this federations should be formed at the national and State levels in all sectors of the co-operative economy. It seems to be necessary to reduce the dependence of the co-operative organisation on Government assistance and initiate and build up a non-official leadership in the move to shoulder responsibility. These functional federations would be able to provide specialized assistance to their affiliates for promoting better business and management, and also render financial assistance to State co-operative unions. Actually the State Governments have been asked to take necessary steps in this direction and to vest such federations with statutory powers for guidance, supervision and control over their constituents.

(9) Conferences and Seminars. Adequate arrangements should also be made for the training of the members of co-operative societies. To create better understanding of co-operative principles and practices and greater enthasiasm for co-operative activity, occasional conferences and seminars should be arranged.

(10) Inner Urge. Above all, all possible efforts must be made to develop a keen urge among the masses themselves for co-operate action. A true ce-operative and democratic spirit among the people is the necessary pre-requisite for the success of the movement.

(11) Spreading the Movement. The measure given below should be followed to quicken the pace of its extension along right lines :—

(*i*) It should be recast into a people's movement so that people start owning it. For this, arrangements should be made to provide facilities for educating people about the movement.

(*ii*) Greater participation of the right type by the Govt. is essential for the spread of movement.

(*iii*) The co-operative movement should be conceived and developed as a part of national economy.

(*iv*) There is a need for extending the activities of the movement in different regions of the country.

(*v*) For improving the working of co-operative institutions and to promote its future growth on healthy lines, it is essential to arrange for continuous inspection and research into its problems.

Steps Taken.

The Government has been taking steps on the above lines during the last few years and has prepared plans to strengthen and expand the Co-operative Movement. Institutions for the training of the staff of the department and the Co operatives have been set up in most States. Both the Government and the Reserve Bank have now become readier than ever before to make funds available to the Movement. Special emphasis is being put on the spread of service co-operatives.

The Government of India set up a high-powered committee in 1964 to review the existing co-operative rules and practices and, to find out the loopholes which enabled vested interests to entrench themselves in the co-operative movement.

Conclusion.

It is hoped that not only will the pace of developing co-operatives be further accelerated but, through proper measures, the progress made will be securely consolidated. Therein lies the social and economic advancement of the country.

"Zamindari System is the product of British Rule in India."

11

LAND REVENUE SETTLEMENTS

Q. 30. Outline the causes and effects of the introduction of Permament Settlement. What efforts were made by Govt. to improve the lot of peasantry ? *(Madurai 1980 ; Mad. 1976 ; Bombay 1978, 1980)*

Ans. In 1793 the Permanent Settlement was introduced in Bengal and in 1795 it was extended to Banaras. During 1802-05 it was again extended to Northern Circars. The Jagir lands around Madras city were also settled on permanent basis. Under the permanent settlement the zamindars were declared to be the proprietors of the estate and the cultivators their tenants. The dues to the State were determined in perpetuity.

Causes. In 1765 Mughal Emperor Shah Alam gave East India Co. the Diwani of Bengal, Bihar and Orissa. Along with the acquisition of the right of revenue settlement and collection it also inherited from the Mughal empire a system of revenue farming according to which a body of zamindars acted as tax collectors. The zamindars gathered the revenue from the tillers on behalf of the State with whom they contracted to pay a prefixed amount. The difference between what they coll-

yearly settlements and the auction system was altered to give preference to hereditary zamindars. But this scheme of Hastings of 5 yearly and

continue the annual revenue settlements and make permanent rules for

collecting land revenue. In 1786* the ten-year settlement was started as the first step towards a permanent settlement. Shore in 1789 strongly advocated permanent settlement. In a subsequent minute Cornwallis strongly recommended the permanent settlement. In 1792 the Directors of the East India Co. gave the assent to the permanent settlement and in 1793 Cornwallis announced the permanency of the settlement.

The major factor which induced the permanent settlement was the belief that the Zamindars with a secure title would do permanent improvements in land The other factors which induced Cornwallis to take this step were the inability of the East India Co. to understand complexities of the Indian land tenure and the fact that the Zamindari system gave an easy solution. Again there was shortage of officials. He wanted to free the officials from revenue work and give them judicial work.

Cornwallis was anxious to extend to Benaras the same system of permanent zamindari settlement which had been concluded in Bengal. Thus the government dealt with one of the chief co-sharers or some other prominent person on a permanent settlement basis in 1795.

Under the pressure from Wellesley, during Lord Clive's administration permanent settlement of land was extended to Northern Circars between 1802-05. The Jagir lands around the city of Madras were also settled during these years permanently.

Objectives. The introduction of permanent settlement had three objectives :—

(1) The major object was to create a loyal class of proprietors who, as Cornwallis himself pointed out, should be attached to us from motives of self-interest. A landholder who was secured in the quite enjoyment of a profitable estate could have no motive for wishing for a change. A landholder liable to be dispossessed if he refused to pay every increase in revenue would be an unstable ally who would remain ready to shift his allegiance to any party holding hopes of a better bargain.

(2) The second objective was to create conditions, so that agricultural development could take place. A flourishing agriculture was connected in 3 ways to the interests of the British East India Co : (*a*) It should first of all stabilise the flow of revenues of the Government. Frequent agricultural crises of the preceding decade retarded the realisation of land revenue. (*b*) A prosperous agriculture would make for contentment of the peasantry who could thus, have less motive to burst out in sporadic revolt. Zamindars were looked upon as the agencies to carry out permanent improvements in agriculture. (*c*) A flourishing agriculture would mean a flourishing trade between India and U.K.

(3) The third motive in connection with permanent settlement was to divert the money capital gathered in the hands of a new class of urban rich into agricultural channels. The selfish motive of British administration of India was to make India an agricultural appendage of England and a market for her manufactures. One aspect of this

purpose was systematic destruction of existing Indian manufactures, which was subsequently followed with ruthless completeness; another aspect of the same purpose was to block any possible development of modern industry in India. With money, capital accumulated in the hands of the new class of bidders. In total disregard of all previous traditions, revenue collections were made directly from the farmers under the zamindars. To be precise, the revenue demand shifted from zamindars to farmers when the latter were able to pay and from the latter to the former when they could not.

Main Provisions : (1) The Permanent Settlement declared the Zamindars the legal owners of the lands of their revenue collection (2) The land revenue payable by the zamindars was fixed in perpetuity. (3) The assessment was unalterably fixed at 10/11 of what rent the zamindars gathered from the tillers at that time.. (4) If the zamindars failed to pay the revenue their estates would be sold.

Effects. It was expected that the zamindars with a security of title and knowing that the whole increased income would go to them and that no share of it would go to the Govt. would improve the lands. Secured agricultural enterprise, greater investments in land, permanent agricultural improvements, extension of cultivation and reclamation of waste land, greater yield and a contented peasantry and higher wages for farm labourers were some of the benefits expected. But none of these expectations could be realised.

Advantages. (1) It assured a stable income to the Govt. without the heavy expenses of periodical re-settlement..

(2) Socially the zamindars become the natural leaders of the tillers and instilled into them a sense of public spirit.

(3) Politically the zamindars became the greatest supporters of the government for their self-interest.

(4) It made Bengal one of the most flourishing and wealthiest and provinces in India. According to *R.C. Dutt*, "If the prosperity and happiness of a nation be the criterion of wisdom and success, Lord Cornwallis' permanent settlement of 1793 is the wisest and more successful measure which the British nation had ever adopted in India."

(4) Again *R. C. Dutt* remarks, "It has precluded the State from increasing the economic drain of the wealth out of country."

Defects. (1) The settlement was not scientific and was not based on a detailed survey classification of the soil and the preparation of a record of rights.

(2) It meant the sacrifice of the actual tillers who were left without adequate protection against the exploitation of the landlords.

(3) The tillers lost their proprietary rights and became tenants-at-will subject to ejection and rack-renting.

(4) The continuous sub-letting of the right to take rent and the

growing layers of sub-leases made the tenants position progressively harder.

(5) It left Bengal with an inelastic revenue. Though the value of the land rose the State could not obtain higher share as it was fixed permanently. The financial loss to the government has been estimated at Rs. 30 mn. per annum.

Efforts made by the Government to Improve Conditions of Peasantry.

(1) When the permanent settlement was started provisions were made to safeguard the legitimate rights of the tillers. It was provided that the zamindars were to keep a register of their tenants and grant them leases specifying the rents. If there was any infringement of these rules the tiller could go to a court to seek action against the zamindar. But these provisions were of no avail. It was practically impossible for the peasant to avail himself of the legal remedy as it was too costly.

(2) In 1859 the Bengal Tenancy Act was passed. It gave occupancy privilege to a tenant if he had tilled the same land continuously for twelve years. Such tenants could not be ejected and rents could not be increased except by a decree of the court. The zamindars were to give receipts for the rent. The zamindars evaded the Act by making impossible for any tenant to hold the same piece of land continuously for the twelve years period

(3) In 1885 the Bengal Tenancy Act of 1859 was amended. Under the new Act if any one tilled some piece of land, not necessarily the same plot, then he would get the rights of an occupancy tenant. Those who were not occupancy tenants were classed as non-occupancy tenants. No one could be ejected for arrears of rent without notice. Rents could not be enhanced at shorter intervals than 15 years.

(4) The Amendment Act of 1898 provided for the preparation of a record of rights in areas where land revenue was not fixed. The settlement officers were given the power to fix fair and equitable rents.

(5) The Tenancy Act of 1928 gave the tenant the right to transfer his holdings on payment of a fee to the landlord. It also provided for the grant of a occupancy rights to non-occupancy tenants on a 12 years possession. The occupancy tenants were given the rights to build tanks, construct houses and cut trees in their lands. The landlord was given the right of pre-emption.

(6) The Bengal Tenancy Act of 1938 provided for the abolition of illegal cesses levied on the tenants. It reduced the interest on arrears of rent to 6·5%. The landlord's right of pre-emption was abolished and the under-Ryots were given the right similar to those enjoyed by the occupancy Ryots. The Act also provided that the rents were not to be enhanced for a period of 10 years.

The Floud Commission appointed in 1938 recommended in its majority report the abolition of the Permanent Settlement and its replacement by the Ryotwari System. Later, S. Nanavati, a member of the Bengal Finance Commission, 1945, also favoured the abolition of this system and its substitution by the Ryotwari System. But action was taken in this direction until India gained independence.

Q. 31. Trace the growth of the Ryotwari system of land tenure in India and mention its principal features.

(Jammu 1973; Bom. 1979, 1973)

Or

Trace the history of *Ryotwari* system of land revenue settlement in India.

Ans. The Ryotwari System was most common in Madras, Bombay and Bihar.

Ryotwari Settlement in Madras.

The Ryotwari Settlement in Madras falls into three stages—the early, mid and the late. The early Ryotwari settlement was introduced by Captain Read in 1792. It was largely extended by Thomas Munro. Read dispensed with the middlemen and dealt directly with the individual farmers through his own servants. He made a detailed survey field by field and fixed the land revenue due from each field in terms of money. Munro was employed under Captain Read on the settlement work in the Baramahal districts. The settlement of Barahmahal was completed by 1798. Next Munro completed the settlement on the Ryotwari System in Canara within a year. In 1800 when he was transferred to the Ceded districts, he introduced the Ryotwari System there. *The annexation of Tanjore and Coimbatore in 1799* and of Arcot in 1801 was followed by the introduction of Ryotwari system. When Malabar was transferred from Bombay Presidency to Madras Presidency in 1800 the Ryotwari Settlement was introduced there also.

But during 1802-04 the system was under check and under pressure from Wellesely the Zamindari System of Permanent Settlement was introduced in South. But the doubts about the expediency of the system checked its further progress. Then after experimenting with the village lease scheme during 1808-09 under the instructions from the Directors of the Company, the Govt. reverted to the Ryotwari System in 1820 under the Governorship of Sir Thomas Munro.

The reintroduction of the Ryotwari System marks the Mid-Ryotwari. But it was a period of chaos. The settlement was unscientific and assessment was high.

The question was solved in 1855 when a scientific system was introduced. The principle of assessment laid down in 1855 marks the beginning of the Modern Ryotwari. In 1857 the new settlement department was constituted and in 1864 it was decided to fix the government dues to 50% of the net value of the crop. The period of settlement was fixed at 30 years.

Principles of Settlement. (1) The registered holder is the legal owner. (2) He pays land revenue directly to the State. (3) He can sell, mortgage, or do whatever with his property. (4) He is free to relinquish any portion of his property. (5) He cannot be ousted from the property except in case of default of payment of land revenue, in which case as much of the property necessary to recover the dues will be attached and sold in auction. (6) The improve-

ments made by him are exempted from taxation. (7) The waste land is the property of the State.

Method of Assessment. The lands are classified into wet and dry. The lands are then divided on the basis of the productive capacity of the soil into 'series', 'classes' and 'sorts'. The estimate of corn output per acre and the value of the *yield in terms of money is made*. For this, the average price of corn during the previous 20 non-famine years is taken. From this money value deductions are made for the expenses of cultivation, cost of carriage, traders profits and the like. What remains is the net value. Land revenue is limited to 50% of the net value of the crop.

Ryotwari Settlement in Bombay.

The Ryotwari System was introduced in Bombay by Elphinston who got the Governorship of Bombay in 1819. He directed a gradual survey and assessment of the territories. He wanted that the assessment should be light and evenly and equally distributed. Chaplin, the Commissioner of Deccan made the survey rules in [illegible]. He accepted the same standard as accepted by Munro in Madras. But the State demand was too heavy. The survey settlements were made by Pringle during 1824-28. The settlements as they were conducted on exaggerated estimate proved very heavy.

This system was left and a new survey was started in 1835 by Goldsmith and Wingate. They recommended settlement for 30 years, protection of the improvement from taxation, recognition of property in the soil. The survey officers in fixing the rates of assessment were guided by purely practical considerations as to the ability of land and the general circumstances of the district.

The settlement operations were undertaken for many years and gradually extended to the whole of the State. Then it was decided to conduct a fresh enquiry and prepare rules for future guidance. The work was done by Goldsmith, Wingate and Davidson. They submitted the report in 1847 recommending that settlement should be based on assessment of each field separately and the settlement should be [illegible] years and the basis of settlement should be the estimated value of lands.

in prices where a particular settlement is made with reference to specified prices of farm produce. Increase in assessment is limited to 25% for a takula and group and 50% for a village.

Q. 32. Explain the features of Land Revenue Settlements prevalent in India till 1947. *(Pb. M.A. 1978, 1976)*

Ans. Because of some historical reasons, there has been no single uniform system of land revenue asssessment in India. Still they may be classified from two points of view :

(*i*) According to the *period of time* for which assessment is made. Whether it is fixed once for all or is revised periodically. The former is known as Permanent Settlement and the latter Temporary Settlement.

(*ii*) Regarding *who is responsible* for its payment there are three main systems : (*a*) Zamindari, (*b*) Mahalwari, (*c*) Ryotwari.

(*i*) According to the Period of Time for which assessment is made there were two systems of land tenure :—

(*a*) **Features of Permanent Settlement.** The Permanent Settlement was made in Bengal in 1773 by Lord Cornwallis and extended to Benaras in 1795 and then to Bihar, Orissa and Northern districts of Madras. There was at one time agitation for the extension of this system. But such proposals were finally rejected in 1883.

(1) The revenue to be paid was fixed once for all.
(2) The Zamindars obtained proprietary rights on the soil.
(3) The revenue due from the Zamindar was determined in cash.
(4) The rate fixed was $\frac{10}{11}$ of the rents realised by Zamindars at the time, $\frac{1}{11}$ being left to the latter as their share.

Arguments in Favour. Financially it ensured to the Govt. a stable revenue. (2) Politically it secured the loyalty of the Zamindars in the task of consolidation of British rule in India. (3) Socially it enabled the Zamindar to act as the natural leader of the farmers. (4) Economically it secured agricultural enterprise and a resourceful peasantry with a remarkable power of resistance in difficult times. (5) *It avoided the evils associated with the temporary settlements* like harassment of farmer, expensive machinery required for settlement.

[illegible] recommended the abolition [illegible] intimate knowledge of rural conditions. (4) It encouraged excessive amounts of sub-infeudation, created a number of intermediate interests between zamindar and the actual tiller. Thus in the period 1793-1859 the tillers were left at the mercy of Zamindars. In 1900 it was officially estimated that land revenue paid to State from permanently settled areas amounted to less than Rs. 4 crores, whilst rent in the same areas amounted to no less than Rs. 16¼ crores. In short, Perma-

nent Settlement gave birth to landlordism, rack-renting and economic serfdom of the actual tiller.

(*b*) **The Temporary Zamindari Settlement.** The Zamindari system was extended to places like Agra, Oudh and C.P. etc. But the settlement was made on a temporary basis Here again the zamındar was invested with proprietary right and he was made responsible for the payment of land revenue. The settlement of payment was made for fairly long periods and the Govt. reserved to itself the right to increase the land revenue assessment at the end of each specified period.

Temporary Settlements are not of a uniform character. Differences arise due to (1) *differences in persons making payment of revenue,* (2) *period of settlement, and* (3) *difference in methods of calculation and assessment of revenue.*

(*ii*) As regards agency by which the revenue is paid there were three tenures :—

(*a*) **Zamindari System.** It worked largely in Bengal, Bihar, some parts of Assam, Orissa, Madras, U.P. and under the temporary settlement amount of land revenue was revised after every 30-40 years.

(*b*) **Ryotwari System.** It was first introduced in Madras in 1792. Later it was extended to Bombay, Madras, Bihar, Sind and Assam. Generally there is no intermediary between the farmer and the State. Land revenue is fixed on land and the owner pays it. Ownership right is subject to the payment of land revenue. The revenue is fixed at the time of settlement. Settlement periods are fixed like 30 to 40 years.

(1) **Madras.** Land revenue is fixed at ½ of the net produce *i.e.,* total amount of produce minus expenses after 30 years.

(2) **Bombay.** There is no definite principle of assessment. There, the Settlement Officers are given considerable discretion, so they assess on the basis of the general economic condition prevailing at the time of assessment.

Assessment of revenue under this system is arbitrary and gives birth to much discontentment among the peasants.

(*c*) **Mahalwari System.** Under this system, the responsibility of payment of revenue is on the whole body of co-sharers owning land. The various members of village community are both jointly and severally responsible for the payment of revenue. In actual practice each member is responsible for the payment as fixed for his own land. In Punjab, one of the co-sharers (Lambardar) gathers revenue and after deducting his own (5% Panchotra) share deposits the rest in State treasury. In the other States like Agra, M.P. co-sharers themselves pay directly to the State. Assessment is revised after every 40 years in the Punjab, 20 years in M.P. and 30 years in U P.

In the Punjab and U.P., the assessment is a percentage of the net assets *i e*, the rent received. Though the basis is the same in these States different percentage of rents are claimed and dissimilar methods are followed in calculating the rent. In Punjab it is 25%, U.P. 40%

The basis of assessment is not fair. The wages of work done by farmer and his family are not deducted to arrive at the income of the farmer. Hence so calculated revenue is heavier than a fair one.

The land revenue is collected twice a year. June for Rabi and January for Kharif crops are generally fixed for collecting revenue. Suspension and remission in land revenue are granted under draught or famine conditions.

Our land revenue system satisfies two canons (convenience and certainty) and violates the others (equity, economy and elasticity).

Q. 33. What were the main features of land tenure in India before Independence ? In what respects and when have they been modified since then through legislation ?

(Pbi. 1970 ; Pb. M.A. 1980, 1978 ; Delhi 1976 ; Kurukshetra 1969)

Or

Examine the inhibiting features of British land system in India. How far have these been removed by land reforms after Independence ?

(G N.D.U. M.A. 1973)

Ans. British rule established in India 3 legal forms of land-tenures which were as much alien

first was the *Zamindari* form

form and the third the *Mal*

of English landlordism, the *second* a caricature of French peasant proprietorship and the *third* a caricature of the Indian economic community, as Marx described them very aptly.

We shall now describe and examine each one of these major systems.

(1) Zamindari System.

The Zamindari system was a product of the British rule and many non-economic considerations also entered into its establishment.

Under this system, the zamindar was reconised the *absolute owner* and was made *responsible for the payment of land revenue* to the Government. The revenue demand was either settled once for all as under the Permanent Settlement of Lord Cornwallis or was fixed after every 30 to 40 years.

This tenure was prevalent in West Bengal, Bihar, northern districts of Tamil Nadu (now constituting a part of Andhra) and parts of U.P. and M.P. It was also prevalent over a large proportion of what were till recently princely States for example, over two fifth of Madhya Bharat and one-third of Hyderabad. Of course, it was known by different names—Jagirdari, Malguzari, Biswedari, etc. In the former princely States, Jagirdars performed certain administrative and judicial functions also.

Those who used to be *revenue* collectors were suddenly conferred proprietary rights in the land from which they used to collect land revenue. It was hoped that the landlords thus created would improve

agricultural efficiency and would provide natural leaders for rural society.

Demerits of the Zamindari System.

Contrary to expectations, the system proved positively harmful both to the interests of the cultivators and to the agricultural progress of the country.

The main demerits were :

(1) Landlords were concerned only with extracting as much rent from the actual tiller as they could, without contributing anything to agrarian progress in any way.

(2) The tenants suffered from oppressive rack-renting and insecurity of tenure.

(3) Cultivators, owing to the constant fear of ejectment, had no incentive to improve the land.

(4) The zamindars were very unenterprising. They lived in luxury in cities far away from their lands and became a sort of *"distant suction pumps"*, the zamindari system, was the *absentee landlordism at its worst.* In the words of *Carver*, "Next to wars, famine and pestilence, the worst thing that can happen to a rural community is absentee landlodism."

(5) The tenants, besides paying the rent, were often subjected to several *illegal exactions.*

(6) In the zamindari areas, where Permanent Settlement worked the Govt. could not enhance the revenue demand in spite of the fact that cultivation was extended to new areas and rents on the land already under cultivation had been raised several-fold. The zamindars grew richer and richer, but the State was thus deprived of its legitimate increase in revenue.

(7) Since the waste land belonged to the zamindar who was also un-enterprising the extension of the area under cultivation was retarded.

(8) The multiplicity of right over each holding debarred rapid consolidation of holdings.

(9) By dividing the rural society into two hostile classes (the zamindars and the tenants), the system produced condition for a bitter class conflict.

Under the zamindari system none of the parties concerned (the State, the landowner or the tenant) were *interested* in making improvements in agriculture. Besides being *socially* unjust the system was largely responsible for stagnation and *low productivity* in agriculture.

Such acute evils of the system *led to an insistent demand* for its abolition. Accordingly, legislation *has been passed* in the last few years in almost all the States, for the *abolition of zamindari.*

(10) The multipilicity of *rights over land* also ruled out any in the direction of co-operative *farming.*

(2) Ryotwari Tenure.

This system was first introduced in Madras in 1792. Later it was extended to Bombay. In the Madras *Administration Report for 1855-56* the Ryotwari system is explained as follows: "Under the Ryotwari system every registered holder of land is recognized as its proprietor and pays direct to the Government. He is at liberty to sub-let his property, or to transfer it by gift, sale or mortgage. He cannot be ejected by Government so long as he pays the fixed assessment and has the option annually of increasing or diminshing his holding or of entirely abandoning it." In the Punjab colonies also the system of tenure was similar.

Some writers think that under the Ryotwari System the Govt. is the landlord. It is argued that (*a*) the Govt. can resume the land if the cultivator does not pay the land revenue, (*b*) the waste land belongs to the Govt., (c) the tiller has the option of leaving the land and the Govt. resumes it.

On the other hand, it is argued that (*a*) ownership is never absolute. All property is held conditionally on the payment of the tax due on it. The Govt. can resume any land if its demand is not paid.

(*b*) The waste land may belong to the Govt. but this is not true of cultivated area. Proprietary rights are conferred in the case of the latter. Under the Mahalwari System in the Punjab, proprietary rights even in the common waste land of the village vest in the villagers collectively until it is divided.

(*c*) The tiller's option to leave the land if he does not think it worth the revenue assessed, does not prove that the Govt. regards itself as landlord. This option was given not to preserve any proprietary rights of the Govt. but to induce the cultivator to cultivate land at a time when rights in land were not much valued and to assure him that he was not being forced to cultivate the land.

We conclude in *Kale's* words that the so-called "occupant" of "Government land" in Ryotwari areas "is as much a proprietor of his land as the zamindar of Bengal, the only difference being that in case of the latter, the land tax is permanently fixed, whereas in the case of the former, it is liable to periodical enhancement."

The main advantage claimed for this system is that there is no subinfeudation and the tiller is in direct relation with the State. There are no intermediaries. On account of sub-letting of land by the occupier, however, this advantage has tended to disappear, though conditions are not as bad in this respect here as under the Zamindari System. It has been pointed out that the land in these areas is passsing into [illegible], the number of landless labourers is [illegible] the holding is becoming progressi[illegible]

The system is also defective in the method of assessment of land venue. It leaves a great deal to the discretion of the Settlement

Officer whose estimates are based on mere guess work. Another defect is that individual assessment has destroyed the collective bases of village life and has led to the decay of the village community.

3. The Mahalwari Tenure.

This system was first introduced in Agra and Oudh and was later extended to the Punjab. Under this system land is held jointly by co-sharing bodies of village communties, the members of which are treated as "jointly and severally liable for the land revenue." The most typical of such tenures is found in the Punjab. "In the old settled districts of the East", says Calvert, "The soil but not always the minerals beneath it, is held in full proprietary right, subject to the payment of revenue by the village community in common. The State is the supreme landlord and retains important rights of resumption for public purposes, or for serious crime or for failure to pay the revenue, or for refusal to accept the new demand for settlement, but these are so rarely used that the full right of the village community is seldom disturbed and the rights of the State are apt to give way to the duties and responsibilities of a great landlord."[1] He adds, "If any owner abandons his land, it would be taken over by the proprietary body. Both in law and in practise the rights by the village community are carefully preserved; they are the owners of all the village 'common' or *shamilat*, with its trees, grass, etc. and they own the site of the village buildings."

Land in the joint villages may be shared in a variety of ways. Three kinds of villages may be noted :

(*a*) Ancestral villages, where the owners are descendents of the same ancestor. The share of each depends on his postion on the geneological tree. In some of these villages land is held jointly. In others division takes place according to the ancestral share system, in still others division is partial.

(*b*) Non-ancestral villages, in which sharing takes place under the customary principles. This sharing takes place in various ways; in equal lots; according to the number of ploughs owned; according to share in water or in wells. The land, however, is still regarded as jointly owned.

(*c*) Villages in which existing holdings are recognised as they are and there are no definite rules for sharing.

The rules of sharing in each case depend on how a joint village originated. They were formed in one of the following 3 ways :—

(*a*) Ancestral villages were formed by the descendents of a person who may have been a founder, a grantee, a revenue farmer or a ruling chief reduced to the position of a landlord.

(*b*) The owners may belong to an immigrating or conquering [illegible] with land alloted according to their customary methods.

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1. Wealth and Welfare of the Punjab, P. [illegible]

(c) *The owners may have been* a group of people who colonised the place and established cultivation on the joint stock principle.

In a typical joint village the owners are themselves the cultivators —peasant proprietors. In some cases, however, land may be cultivated by tenants who pay rent either in cash or kind. In other cases, a large owner gives a part of his land to tenants and works the rest himself; in still others, a small holder supplements his holding by getting some land on rent. The best results of cultivation are obtained, however, when a peasant proprietor possesses just enough land to cultivate economically with the help of his family. This would be an ideal system if the cltivators pooled their resources on a co-operative basis and used mechanical methods of cultivation. The peasants proprietorship system dominates in the Punjab though the holdings are often too small. In such cases joint farming is absolutely essential to get maximum yield from land.

In the case of some joint villages in U.P. certain overlords have arisen and original proprietory rights have degenerated into subproprietory rights. In Madhya Pradesh the basis of settlement is the same as in the Mahalwari system. The only difference is that the State has recognised Malguzars as heads of villages. They were revenue farmers under the Maharattas, and were given proprietary rights as a "gift". As a result the old village community broke up and the original intention to keep the joint character of the village has not been realised.

Recent Modification.

We have given above the main features of the land-tenure system prevalent in India. We have also indicated their defects. A good [illegible] direct contact between the State [illegible] be conducive to higher produc- [illegible] peasant's resources and should [illegible] view of this, several land reforms [illegible]:

(1) abolition of zamindaris: (2) tenancy reforms; (3) imposition of ceilings on land holdings: and (4) introduction of co-operative farming.

Q. 32. What are the aims of Land Reforms in India? How far have these aims been achieved?

(Allahabad 1972; Tirupati 1981; Rajasthan 1980)

Or

Discuss the main features of the Land Reforms undertaken in India since Independence.

(Jodhpur 1977; Karnataka 1972; G.N.D.U. M.A. 1981; Bom. B. Com. 1978; Delhi 1979; Rajasthan 1978; Kurukshetra 1978)

Or

Discuss the land reform policy of the Government since Independence. What has been the impact of this policy on (a) the improvement of productive efficiency, (b) social justice ?

(Kurukshetra Hons. 1973 ; Bombay 1976, Delhi 1970)

Or

Assess the progress and economic effects of land reforms in India.

(Pb. B. Com. 1981, 1977 ; Jammu 1978 ; Chartered Accountancy 1967)

Or

What are the salient features and objectives of recent land reform measures undertaken in India ?

(G N.D.U. 1977, Jiwaji 1973 ; Pbi. 1978, 1972)

Ans. The objectives of economic planning in a developing economy like ours are (*a*) to achieve-maximum production (*b*) to attain a measure of social justice, (*c*) to reduce economic inequalities and avoid concentration of economic power and (*d*) to prevent exploitation of the under-privileged classes. To accelerate development of agriculture, it is also necessary to bring about a reorientation of the social institutions which act as impediments in the path of rural development For the development of a poor economy land reforms have a special significance, because the prevalence of the feudal system and rack-renting and the existence of small-sized farms, insecurity of tenancy rights act as serious hurdles to the growth of agriculture.

If the land reforms have to attain the objective of raising agricultural productivity and achieving a measure of social justice, they must include redistribution of land ownership in favour of the cultivators so that they may have a sense of participation in the life of the rural community. They must also bring into existence holdings of economic size, provide security of tenure and fair rent for the tenant. These, in fact, are the objectives kept in view in land reforms in India.

Thus land reforms were assigned a special place in our 5-year Plans. A comprehensive land policy was set out in the Plans providing for elimination of intermediary rights, tenancy reforms including regulation of rent, security of tenure and transfer of ownership to tenants, imposition of ceilings on land holdings, consolidation of holdings, prevention of fragmentation. etc. A short account of the land reforms is given here as under.

(1) **Abolition of Intermediaries.** Intermediary rights have been abolished over about 40% of the area of the country, thus bringing about 20 mn. tenants into direct relationship with the Govt. Besides, large areas of cultivable waste lands and forests have come under the management of the State. [illegible]
lands had been distributed [illegible]
workers. A sum of nearly [illegible]
of Rs. 6,640 mn. had been [illegible]
in cash or in bonds.

(2) **Tenancy Reforms.** The rent payable by the [illegible]
has been reduced from 50% or more to a maximum rent [illegible]

20% of the gross produce in many States. However, in some States the prevailing rate of rent is still as high as 33% of the produce or even more. Legislation providing for security of tenure has been enacted in almost all States. In Karnataka and Orissa laws have been passed but not enforced yet.

(3) **Ceilings on Holdings.** The ceiling legislation has been passed in all States, though the implementation thereof has made progress in some States only. As a result lakhs of acres have been taken into possession by State and distributed among the landless tillers or labourers.

(4) **Consolidation of Holdings.** In order to enlarge the size of land holdings ; consolidation of of uneconomic holdings was undertaken and substantial progress has heen made in this connection in the Punjab, Rajasthan, Uttar Pradesh, Madhya Pradesh and Maharashtra.

[illegible] sides measures like consoli- [illegible] steps have been taken to [illegible] for the reorganisation of agriculture.

Estimate of the Progress.

Before we give our separate comments on the progress of land reforms we have to make 2 general observations : (1) *The pace of implementation of reforms measure has been slow.* A great deal of benefit has been lost due to deficiencies in implementation. Introduction of bills or enactment of legislation does not carry us far if the process of implementation is not expedited. Indeed the *prevailing uncertainty* in the rural sector and the resulting fall in production are in no small measure due to the undue *prolongation of reforms which are radical in nature*.

(2) There is a *marked unevenness in respect of progress in the States* and in respect of reform measures too. Some diversity in the reform measures is, of course, inevitable but the degree of diversity that is presented in the overall picure of reforms all over the country is much larger than is warranted by difference in regional conditions.

Below we attempt an estimate of progress in respect of the main features of land reforms.

Abolition of intermediaries has been greatly implemented. But the formal abolition of intermediary rights does not in all cases bring appreciable relief to the tiller unless he is in a position to pay compensation fixed by law for acquiring land. He has to pay the same rent to the State.

Regarding the *rent chargeable* while several States have scaled them down, in, a number of States the maximum fixed is still higher than 25% to 20% of gross produce recommended by the Planning Commission. While provisions regarding security of tenure have been enacted in several States, yet large-scale ejections of tenants continue in many States under one or the other pretext.

In some States laws about the *resumption of land for personal cultivation* have defined the terms "personal cultivation" so loosely or defectively that lands resumed by landholders on ostensible grounds of personal cultivation are being cultivated through crop-sharing arrangements wherein the crop-sharers are treated as labourers.

Regarding *ceilings on land holdings*, although in almost all States [illegible] may find some loopholes in the legislation and make use of them in transferring lands. This sort of comment may sound unduly harsh, but it cannot be denied that provisions against transfer and partition made in the ceilings legislation have been defective in most of the States that [illegible] is or changes of tenants. [illegible] there is a feeling that [illegible] which should not have been exempted.

The work of *consolidation of holdings has* also made progress only in a few States. Elsewhere practically no work has been done so far.

Very few States have so far made provisions for *regulating the standards of cultivation and management* of land and resumption of land in case of failure to maintain those standards.

An Appraisal of Land Reform Policy.

Land reforms were conceived boldly but were implemented badly. The basic defect of the India land reform policy has been the slow pace at which the whole programme moved. This provided the landlords and other vested interests sufficient time to devise ingenious methods of by-passing legislation.

Land reforms in India failed to touch the issue of land distribution and prevent sub-letting and renting. A good many of these who cultivate the soil have no land rights whereas many of those who do *not till still* own and possess land.

There has been no uniformity in land reforms. In the matter of fixing rent, the variation is from 20% to 50% of gross produce between States. In some States there is no provision for bringing the tenants into direct touch with the State. In States like Karnataka and Orissa, there are no legislative provisions restricting *malafide* transfers of land. In some States, the tenants have no right to purchase the land they cultivate,

Land reforms fall within the purview of the State Governments which have always been afraid of the landlords and hence failed to implement land reforms effectively.

Factors Impending Implementation.

It is obvious that in some States, the implementation has been delayed because of the *lack of enforcing machinery*. In others, there is

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12

CO-OPERATIVE FARMING

mental reservation. A very disquieting feature of land reforms is that the *record of rights is not yet complete* in most of the States. In the absence of complete record of rights, it is not possible to say what is the nature of tenancy and who are the people who lease lands. It is, therefore, necessary to expedite the completion of records, so that a clear idea about the use of lands may be had.

All this does not mean that there has been no achievement at all on the land reforms front since Independence. But there can be no doubt that the progress made has been slow.

Impact of Land Reforms.

Productive Efficiency. So far as productive efficiency is concerned the land reforms affected in India in recent years have not had any significant impact. This is mainly due to the fact that the reforms have not been effectively implemented or the laws passed have not been fully enforced. The consolidation of holdings has not been completed, the legislations regarding ceiling on land holdings have not been enforced. The ownership of land has not yet been fully transferred to the tillers; the actual rents still rule high and much higher than fixed by the law owing to universal land hunger; the security provided to the tenant is still on paper only. Co-operative farming has not made much headway. In the absence of economic holdings being firmly in actual possession of the tiller in which he has a stake and permanent interest how can modren techniques or inputs [illegible]ues to be low. [illegible] and produc- [illegible] achieved is solely due to technological changes and progress.

Social Justice. As far as social justice is concerned, we might say that it has been achieved in a measure. This is mainly due to the [illegible] disappeared from the scene [illegible] may not have become land-owners in law but they feel and behave as such all right. The tenancy laws have given them protection from exploitation by providing them security of tenure and fixing maximum chargeable rents. The tillers are getting organised in many areas to protect their rights and get advantage of the benefits concerned on them by the Govt. A start has been made to fix the maximum amount of land which every family can hold and distribute the surplus land among small farmers and landless labourers. However, much more has to be done before social justice is established on solid foundation.

"I firmly believe that we shall not derive the full benefits of agriculture until we take to co-operative farming."

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12

CO-OPERATIVE FARMING

Q. 35. Examine the case for the development of co-operative farming in India. What do you think of its future ?

(Pb. M.A. 1978, 68 ; Meerut 1978 ; Osmania 1976 ; Bom. B. Com. 1981 : Mad. 1973 ; Jiwaji 1973 ; Kashmir 1975 ; Jiwaji 1968 ; Kurukshetra 1978, 1970 ; Allahabad 1973 ; Cal. 1980 ; G.N.D.U. B. Com. 1973 ; Vikram 1978)

Ans. The ultimate objective of land reforms in India is to establish co-operative farming and co-operative rural economy. Co-operative farming implies pooling of lands of various farmers for joint cultivation. The co-operative farm employs the farmers as labourers and pays them the wages This share is paid in proportion to the value of land pooled by each farmer. Apart from this share in profits, the workers on a co-operative farm also get a work-bonus in proportion to the work done by them. We may emphasise the fact, that such pooling of land farmers is strictly voluntary and there is no compulsion whatsoever.

The Origin of Co-operative Farming. The idea of co-operative farming is not novel for our country. It was emphasized as early as in 1944, when the Advisory Board of the then Imperial Council of Agricultural Research made a memorandum on co-opera'ive farming It was reiterated in the Bombay Plan which stated that as the average size of holding was not more than 8 acres, co-operative farming was desirable. It also suggested a measure of compulsion in order to bring together small holders under a co-operative farm. After independence, the Congress Party appointed the Congress Agrarian Reforms Committee which recommended that individual farming should not be permitted on holdings which are below a basic minimum size. The First Plan stated that 'co-operative village management" should be the goal of the rural economy. This was re-emphasized in the Second Plan and the aim was to enlarge co-operative sector until the

mental reservation. A very disquieting feature of land reforms is that the *record of rights is not yet complete* in most of the States. In the absence of complete record of rights. it is not possible to say what is the nature of tenancy and who are the people who lease lands. It is, therefore, necessary to expedite the completion of records, so that a clear idea about the use of lands may be had.

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Social Justice. As far as social justice is concerned, we might say that it has been achieved in a measure. This is mainly due to the fact that interme[illegible] from the scene. India no longer [illegible] at the bottom. [illegible] they may not have become land-owners in law but they feel and behave as such all right. The tenancy laws have given them protection from exploitation by providing them security of tenure and fixing maximum chargeable rents. The tillers are getting organised in many areas to protect their rights and get advantage of the benefits concerned on them by the Govt. A start has been made to fix the maximum amount of land which every family can hold and distribute the surplus land among small farmers and landless labourers. However, much more has to be done before social justice is established on solid foundation.

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(Pb. M.A. 1978, 68 ; Meerut 1978 ; Osmania 1976 ; Bom. B. Com. 1981 : Mad. 1973 ; Jiwaji 1973 ; Kashmir 1975 ; Jiwaji 1968 ; Kurukshetra 1978, 1970 ; Allahabad 1973 ; Cal. 1980 ; G.N.D.U. B. Com. 1973 ; Vikram 1978)

Ans. The ultimate objective of land reforms in India is to establish co-operative farming and co-operative rural economy. Co-operative farming implies pooling of lands of various farmers for joint cultivation. The co-operative farm employs the farmers as labourers and pays them the wages. This share is paid in proportion to the value of land pooled by each farmer. Apart from this share in profits, the workers on a co-operative farm also get a work-bonus in proportion to the work done by them. We may emphasise the fact, that such pooling of land farmers is strictly voluntary and there is no compulsion whatsoever.

The Origin of Co-operative Farming. The idea of co-operative farming is not novel for our country. It was emphasized as early as in 1944, when the Advisory Board of the then Imperial Council of Agricultural Research made a memorandum on co-opera'ive farming It was reiterated in the Bombay Plan which stated that as the average size of holding was not more than 8 acres, co-operative farming was desirable. It also suggested a measure of compulsion in order to bring together small holders under a co-operative farm. After independence, the Congress Party appointed the Congress Agrarian Reforms Committee which recommended that individual farming should not be permitted on holdings which are below a basic minimum size. The First Plan stated that 'co-operative village management" should be the goal of the rural economy. This was re-emphasized in the Second Plan and the aim was to enlarge co-operative sector until the

management of the whole land in the village becomes the co-operative responsibility of the community.

A heated debate on co-operative farming began after 1959, because the Nagpur resolution of the Indian Congress stated, "The future agrarian pattern should be that of co-operative joint farming in which the land would be pooled for joint cultivation, the farmers continuing to retain their proprietary rights and getting a share from the net produce in proportion to their land." It also added, "Those who actually work on the land, whether they own the land or not, should be paid wages in proportion to the work put in by them." To implement this Resolution, the Government appointed the Nijalingappa Committee on Co-operative Farming in 1959. This Committee recommended, in particular, the setting up of about 300 Pilot Projects, each project having 10 co-operative farming societies. This recommendation was accepted by the Planning Commission and incorporated in the 3rd Plan and the target was fixed as 10,000 co-operative farming societies.

Case for Co-operative Farming.

The chief defect responsible for the low yields in Indian agriculture is the small and uneconomic size of holdings. The result of the consequent inefficient cultivation is the poverty of the farmers who constitute about 75% of the total population of the country. Unless the unit of cultivation is enlarged, we cannot hope to raise the productivity of land, both for feeding the population and for providing agricultural raw-materials to industries. Some other methods of enlarging the farm are also open to us. *e g.*, State farming, capitalist farming and collective farming. But co operative farming is the best and the most suitable for the purpose, because it retains the peasant's interest in his land and also gives him all the benefits of large-scale farming.

The following are the main arguments that can be put forth for the the introduction of co-operative farming in India :—

1. **Better Utilisation of Available Cultivable Land.** There would be better utilization of the available cultivable land. It has been estimated that by removing the existing boundaries between the small and fragmented fields, it would be possible to obtain about 5mn. acres of additional land for cultivation.

2. **Rational Use of Labour Power.** There would be rational use of labour-power, because small farms are not able to provide optimum [illegible]

3. **Better Utilisation of Time.** By pooling their labour resources the tillers shall be able to add considerably to the volume of output. The time at present spent on wasteful legislation over water and boundary disputes shall be saved and utilised in increasing production.

They can also utilise this time by engaging themselves in cottage-industries.

4. **Better Utilization of Capital Resources.** Co-operative farms of an optimum size would ensure better utilization of capital resources like bullocks, agricultural implements and irrigation facilities.

5. **Scientific Research.** Co-operative farms would be able to avail of scientific research and technical assistance much more than million of individual small tillers can.

6. **Crop Planning.** With co-operative farms it will also be much easier to introduce crop-planning in an efficient and scientific way.

7. **Social Security.** Co-operative farms are in a better position to provide social security, improved housing, and medical and educational facilities to the peasants.

8. **Close Co-operation Between State and Peasantry.** Co-operative farming will lead to closer co-operation between the Govt. and the farmers, because it would be easier for the administration to contact bigger units in place of a very large number of tiny units as at present The Government will find it much easier to execute their agricultural policies related to procurement of foodgrains, distribution of improved seeds, manures and regulation of crop-production etc., through co-operative societies.

9 **[illegible]** The application of co-operation to [illegible] ble effects in the social and moral [illegible] promote social sense, community spirit, a strong democratic spirit and above all, a feeling of security. Co-operation, it must be remembered, is perfect democracy in action. It cuts right across all the artificial compartments into which humanity has grouped itself and is also a great check on all anti-social urges, such as greed and selfishness. At the same time, it avoids the tendency to drab uniformity, regimentation and bureaucratization, which characterise States Socialism. Co-operation is thus, a golden mean between Capitalism and State Socialism.

10. **Reliable Agricultural Statistics.** Through properly organized co-operative farms, there would be improvement in the collection of reliable agricultural statistics, which are so essential in the framing of appropriate policies.

11. **More Employment.** Co-operative farming must be dynamic and thus allow for increased absorption of labour. The additional labour could be used for improving the quality and quantity of land under cultivation and for subsidiary industries like dairy, poultry, etc. An increase in output on co-operative farms would also create more employment opportunities for harvesting of the increased crops, for its marketing, processing, ware-housing and transporting. The enlarged purchasing-power of members of co-operative farms would create still

n l effort may develop that sense of responsibility which we find lacking in rural life today.

2. **Deep Love for Land.** It is pointed out that the Indian farmer has deep love for his very own land and that he will not willingly pool his land with that of others. So all kinds of pressures will have to be put by the Government and incentives and penalties will have to be devised that would make such societies voluntary only in name. There will thus to be a *considerable element of compulsion.*

It may be pointed out that the programme of co-operative farming is to be put through by a democratic Government with its outlook governed by the fundamental principles of the Constitution and in view of its anxiety to expand production, fears about voluntary co-operatives becoming in fact compulsory ones may be groundless.

3. **Difficulty of Suitable and Efficient Personnel.** A strong objection against the co-operative fa ming is the difficulty of suitable and efficient personnel both to run co-operative farms and supervise to them It is said that the practical difficulties in co-operative farming are so numerous that the extremely meagre administrative talent at present available would find it difficult to cope with it. There are not sufficient administrative personnel even for implementing easier forms of co-operation, such as credit and marketing.

As against this, it may be pointed out that the adoption of co-operative farming will not be too rapid but gradual. Farmers would be trained and educated in the art of co-operation, so that they may be able to organize *themselves and run their co-operative farms efficiently.*

4. **Under-employment and Unemployment.** A more serious criticism against the introduction of co-operative farming is that it would *aggravate further the problem of under-employment and unemployment in rural areas.* By pooling land, by attempting rationalization and mechanization it is quite likely that need for labour may be reduced.

This is a genuine criticism, but it may be pointed out that the growth of cottage and small-scale industries allied with agriculture may provide a sponge large enough to absorb the labour-made surplus by co-operative farming. Co-operative farming, instead of aggravating the problem of rural unemployment or under-employment, would instead tend to ease it by opening up new avenues of employment,

5. **Determination and Distribution of Profits and Wages.** Again, another practical difficulty would be that there is bound to be considerable discontentment in respect of the determination and distribution of profits and wages, It would be difficult to measure the amount of labour put in throughout the year by each member and to pay him accordingly. These administrative difficulties would lead to nepotism and corruption.

Such difficulties *should* not be *allowed* to break an essential reform

greater conumption, production and employment in the country.

12. Economies of Scale. Consolidation of fragmented holdings under co-operative farming reduces effort and cost, avoids wastage and increases productivity. Land wasted in demarcation of small farms is also used under co-operative farming. Similarly, when the members dig more wells, irrigation channels etc. there is an increase in the availability of other inputs like labour and capital. This is nothing but a clear case of economies of large-scale.

13. Incentives and the Human Factor. It is true that sometimes the selfish human-beings care more for individuals gains and less for the gains of the community. But the interest of an individual and that of the community, may not always march in opposite directions. There are times when the two supplement each other. The social consciousness of members of a co-operative farm does not remain the same. Education, training, evolution of new practices, working together in fellowship for a common cause, all lead to a change in human behaviour.

14. Integration At present, people do not mix freely and hence, all sorts of social, comercial and religious factors are responsible for separatist tendencies in the villages. *Co-operative farming will provide* opportunities for working together and thus bring about an emotional integration of the different groups of people.

15. Elimination of the Evils of Sub-Division and Fragmentation of Holdings. Co-operative farming will make it possible for small and scattered land holdings to be grouped together thus eliminating the evils of sub-division and fragmentation of holdings.

Case Against Co-operative Farming.

There is also the other side of the picture. Not a few objections have been raised against the introduction of co-operative farming. These are broadly of two types ; those which arise out of the opposition to the idea of co-operative farming, and others which are varied because of the practical difficulties involved in introducing co-operative farming.

1. Loss of Initiative and Incentive It has been argued that under co-operative [illegible] *incentive to* [illegible] he is turnec [illegible] *tion*, and thus the most important advantage of co-operative farming would not be available.

But it may be pointed out that by and large the average farmer India is not a 'free man'. If he is a tenant he still labours under [illegible] ; he has limited [illegible] idleness. In fact, co-operative farming may be conducive to greater [illegible] of action, and association with one's comrades, in the comm-

because the managers will have to be lenient if they wish to get themselves elected again. If the mangement is authoritative, it is not co-operative and there would be discontent, dissensions and disorder. In India. apart from the economic dissensions that would arise from co-operative farming, there are already a number of social dissensions based on class, caste and creed. Hence, dissensions would increase if all the heterogeneous mass of people is hudded together to work on a co-operative farm. It is also added that the experiment of collectives in various other countries has failed and in India also it is bound to fail, Hence, let us not experiment it at all.

Despite the criticism against co-operative farming the fact remains that there is no suitable alternative to co-operative farming for eliminating the evils of division of holdings. Co-operative farming can provide a valuable organisational base for mobilising the underemploped of our rural economy for the benefit of development projects.

Gadgil Committee Report. To analyse the actual working of some farming societies, the Government appointed the Committee of Direction on Co-operative Farming in 1963, under the Chairmanship of Prof. D.R. Gadgil. This Committee studied the working of co-operative societies in 35 (out of the 70) Pilot Projects set up in 1961-62. The Report of the Committee was submitted in September, 1965. The main findings and recommendations of the Committee may be briefly given as follows :—

Promising Prospects. The Committee found that the prospects of success of co-operative farming were encouraging. As a result of the Pilot Projects, a number of areas of potential growth have developed. These areas include Dhulia in Maharashtra, Bhavnagar in Gujarat, Sambalpur in Orissa and Jullundur in the Punjab. This is, of course for the case study of the Pilot Projects only. For the country as a whole, the Committee found that co-operative farming has not yet taken firm roots. We may quote the Committee, "Taking the country as a whole, however, co-operative farming has not yet taken firm roots. Here, it is necessary to emphasize that the programme is still in its infancy. By its very nature, co-operative farming will require time before it can make a significant impact on the entire country. Even so, in the areas mentioned, the study leads to the conclusion that the programme has demonstrated its capacity to step up production and create the potential for future development. In other areas, the programme is yet to develop".

Leadership and Type of Members. The success of the programme depends on non-official leadership. The Committee adds. "The progress of co-operative farming will depend ultimately on the extent to which it develops as a genuine mass movement having its own leadership." The societies consisted of predominently (1) small cultivators, (2) medium cultivators, (3) the bigger cultivators and (4) a mixture of all three.

After all, the method of trial and error will ultimately yield some satisfactory solution to this problem.

6. **Conservative Farmers.** It is pointed out that co-operative farming is foreign to our traditions and nature and this they say, is clear from the failure of whatever experiments have so far been made. It is explained that the Indian farmer is conservative and has hardly shown any enthusiasm for and does not readily take to any innovations.

This is too sweeping a judgment based on very limited experience. Nor has the excessive conservatism of the Indian peasants been proved. Rather, whenever he becomes convinced of improved techniques he readily adopts them. The great demand in recent years for chemical fertilizers is a good example.

7. **Division of Labour and Economies of Scale.** It is stated that specialization of division of labour is not possible in agriculture. According to *Cohen*: "A farm-worker can only plough, harrow and harvest the crops at the right seasons of the year, must be able to perform all these operations. In variable climates it will be extremely difficult to reduce production to a routine since the work to be done will vary from field to field and alter as the weather changes. For this reason such farming generally involves a number of detailed decisions which must be made rapidly and cannot be easily delegated to any one other than the farmer himself." In other words, the various types of work on a farm must be done by the farmer himself and they cannot be divided among groups of farmers, as co-operative farming may imply.

8. **Problem of Management.** If a co-operative farm is large in size, it would be necessary to employ a number of managers and supervisors to supervise the workers spread over a vast area. This would [illegible] managerial costs and thus bring down profits, [illegible] in the Russian Collec- [illegible] re spent on payment for administration and service co-operatives. These costs would nullify the economies, if any, obtained as a result of large-scale operation.

9. **Production and "Marketable Surplus".** It is said that produc- [illegible]

[illegible] gry. Their consumption needs are bound to be more because they are already on the margin of subsistence. If there is a decline in marketable surplus, it may decelerate the economic development of the country.

10. **Other Difficulties.** In a co-operative farm, management is [illegible] y elected. Hence, discipline and efficiency would be poor

5. Regarding productivity, the Committee noted that there was an increase in gross value of per acre production. This increase resulted partly from the greater inputs and partly from land improvement. Whilst better inputs like seeds, fertilizers etc. illustrated their results immediately, others like land improvement have a longer gestation period and would, therefore, illustrate their benefits in succeeding years.

6. Regarding consolidation of holdings, the Committee noted that generally the number of fragments of land were reduced through consolidation. This increased the unit of cultivation.

7. Consolidation facilitated farm-management, farm-supervision, improvements in cropping patterns and a more synthetic use of resources.

8. There was saving in the number of bullocks required for cultivation.

9. Pooling of land varied between different societies, depending upon their members.

10. The societies were able to provide greater employment because of 3 reasons :—

(*i*) the undertaking of land improvement measures and capital work.

(*ii*) the increase in the intensity of cultivation and changes in cropping patterns, and

(*iii*) the undertaking of allied activities like dairying and sheep-rearing and the development of non-farm operations through cottage-industries.

Recommendations. The Committee has made a few suggestions for encouragement of the programme. At present, the medium and long-term loans provided by State Governments for land improvement amount to only Rs. 4,000 per society. This amount should be increased to Rs. 20,000 per society. The committee also noted that if enough support and guidance is given about 10,000 new societies each covering 200 acres, could be formed in the Fourth Plan. During the Third Plan, 3,000 societies have been formed. Even then, at the end of the Fourth Plan, the co-operative farming societies would cover only 2.5 million acres out of about 50 million acres held by the sub-marginal farmers. This is just five per cent of the total. It will be much less than 1% of the total cultivated areas of 330 million acres in the country as a whole.

Progress of Co-operative Farming in India. Our Planning Com-[illegible] co-operative farms on an experimen-[illegible] substantial portion of ag-[illegible] operative lines. In the Third Plan, it was decided to set up 3,200 co-operative farming societies, roughly 10 in each district. Besides this, State Governments continued to assist such farming societies. The Third Plan provided Rs. 6

(1) In respect of societies in which a majority of members are small farmers, the Committee found that all the members *pooled their land* and worked on it as labourers. In these societies, only those in which the members belonged to the same caste and kinship were successful. The others did not succeed because of the their social barriers (2) The societies of medium cultivators were more successful because they had joined together in order to reap the benefits of joint management and large-scale operations. (3) The big farmers formed co-operatives in order to evade the provisions of the ceiling and the tenancy legislations. Hence, most of the members of these societies did not work on the co-operative farms A few members, who did work were engaged in supervising the hired labour. (4) In societies with heterogeneous members co-operation was still poorer. In many of these societies, there was no joint cultivation of land It is true that there was a pooling of land by all the members, but this pooling was mostly on paper. A number of this type, of societies was either distintegrating, defunct or was yet to start cultivation. This shows that co-operation among the unequals cannot succeed.

Performance of the Farming Societies. The performance of the [illegible] the Committee from ten diffe- [illegible] ion, (2) land improvement, (3) [illegible] nechanisation, (5) productivity, [illegible] ient, (8) use of bullock power, [illegible] loyment. These may be briefly [illegible]

1. As regards irrigation, almost 66% of the joint farming societies took steps *to improve the irrigation facilities. The investment* was either in the form of labour or money, depending on the ability of the members.

[illegible] depended on availability of [illegible] serious difficulties [illegible] provement, None-theless in the majority of cases studied, the societies had been able to undertake some measures of land improvement, for the very formation of societies renderd possible the implementation of such measures.

3. As for improved farm practices involving intensive use of man- [illegible] many of the societies of [illegible] do so. According [illegible] to adopt improved practices generally increased with forming of societies.

4. Regarding mechanisation, the Committee noted that joint cultivation enabled the use of a number of improved implements like winnowers, theshers, harrows, disc-ploughs, etc. The societies in the Punjab also used tractors because there was a relative shortage of

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13

COMMUNITY DEVELOPMENT

Q. 36. Give the main objectives of Community Development Projects. How far have they been realised ?

(Kurukshetra 1972 ; Osmania B. Com. 1973 ; Madurai 1981 ; Bom. B. Com. 1973 ; Pbi. 1970 ; Rajasthan 1966 ; Tripura 1968 ; Kurukshetra 1970 ; Banaras 1965 ; Lucknow 1968 ; Srinagar 1978; Agra 1979 ; Bombay 1981).

Or

What are the main features of Community Development Projects launched in India ? Examine their usefulness as an instrument of rural reconstruction. *(Delhi B. Com. 1978 ; Pb. 1970)*

Ans. The economic development requires the creation of rising expectations in the rural masses. If the people do not have high expectations of improving the material, moral and mental aspect of their lives, the country may not develop. In India, the rural masses have lived in poverty, disease and ignorance for centuries. Mahatma Gandhi and Rabindranath Tagore had tried to uplift the rural communities in their own ways. But these attempts were not very effective because they were not widespread.

Meaning of Community Development. As they term implies, Community Development means the development of Indian Community. The development is brought about by stimulative, encouraging, [illegible] farmers in improving their economic, social and cultural pursuits.

crores for the experimental projects and another Rs. [illegible] crores for assistance to co-operative farming societies. Despite official support, co-operative farming has made very little progress. By the end of 1965, 2,485 societies in the pilot areas covering 2·6 lakh acres and 2,527 societies in other areas covering 2·9 lakh acres were set up. But most of these societies were said to be fake societies designed to deceive the Government and get loans offered by the latter. Hence the number of genuine societies which were efficiently run was very few. As against the target of 3,180 pilot co-operative farming societies to be organised during the Fourth Plan period, 2,749 were organised up to the end of March, 1973 with a membership of 57,364 and covering an area of 2,77,452 acres. In addition 2,752 societies were organised outside pilot project areas with a membership of 61,471 and covering an area of 3,06,226 acres. On June 30, 1982 there were 10,800 co-operative farming societies in the country covering 5·65 lakh hectares of land with a total membership of 2·8 lakhs. Only half of these societies were functioning properly. The target for the Fifth Plan was of 10,000 societies. In the 6th Plan it has been intended to extend co-operative farming to cover an additional 10 lakh acres. So far the progress of co-operative farming has been disappointing. The Government should be clear in its mind as to how best it can secure the co-operation and support of the farmers in setting up of co-operative farms.

Conclusion. Co-operative farming has the distinction of being the one sector of the Ind an co-operative movement which shares the economic [illegible] from [illegible] der-[illegible] ture [illegible] The [illegible] critical assessments made by two Committees set up by the Government have shown that the programme of co-operative farming was overflowing with inherent difficulties.

The Indian experiment of joint co-operative farming stands out as a classic example in agricultural co-operation. The 6th Plan proposes to explore prospects for developing service co-operatives which would provide certain basic facilities. The Plan also aims at rehabilitating immigrants in areas which are to be allotted in and during the 6th Plan.

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Origin of the Movement. Before Independence efforts were made for the development of the community by national leaders like Mahatma Gandhi, Rabindranath Tagore, Vinoba Bhave and others. They did not succeed for want of wide-spread organisation. After Independence the Government appointed the Grow More Food Enquiry Committee. This Committee was asked to examine as to why the food production was not increasing and to suggest as to how it could be enhanced. The Committee noted that the reason for low food production was too much emphasis on economic aspects of production and the neglect of social aspects The Committee stated that "the economic aspects of village life cannot be detached from the broader social aspects and agricultural improvement is inextricably linked up with whole set of social problems. That all aspects of rural life are inter-related and that no lasting results can be achieved if individual aspects of it are dealt in isolation." The Committee recommended a broader programme for increasing food production. This required the starting of the Community Development revolving round multipurpose Village Level Worker or the *Gramsevak or Gramsevika.* The Government accepted the recommendation of the Committee and launched upon the C. D. programme from the 2nd October, 1952, the birth date of Mahatma Gandhi.

Main features.

(1) Concentrated Effort Over a Small Area. Efforts in the past were concentrated over much too large an area since they tried to cover the whole country. They did not succeed. The first feature of the Community Development Projects is that they cover only a few selected ... *The intention is not to neglect the rest*

... by making a small beginn-

...vely smaller areas and then

spread them out in the rest of the country.

(2) Many-sided Development of Rural Life. The basic concept of the Community Development Projects is that is seeks the many-sided development of rural life as distinguished from the earlier efforts in which the various aspects of village life were sought to be improved piece-meal and in isolation from each other. As the Royal Commission of Agriculture ha...

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... Another important feature is the great emphasis

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... improve his own

lot. The essence of these community projects is, as their name itself show, "to help the people to help themselves."

(4) **Multi-purpose Agency.** These projects provide a single multi-purpose agency reaching the very doors of the farmers. In the case of earlier attempts, not only did the various departments work independently of one another without a sense of common objectives, but each of these approached the villager through its own official hierarchy. The community projects avoid these basic drawbacks.

(5) **Adequate Finance.** Adequate financial and technical provision is made to ensure their success. Previous attempts had suffered from serious inadequancy of such resources.

Programme.

The main items in their programme are :

1. **Improvement in Farming Techniques.** The improvements such as the introduction of better varieties, use of fertilizers, improvement in cropping pattern, improved tools are needed. The object is to make use of the result of scientific research as far as possible.

2. **Exploring Supplementary Avenue of Employment.** Since farming alone cannot make a farmer prosperous, it is necessary to combine with agriculture some other occupations. This means the development of village and cottage-industries.

3. **Extension of Minor Irrigation Facilities.** It is within the power of villagers to extend irrigation facilities through minor irrigation works. The C.D. programme gives an important place to this item in their programme.

4. **Improvement of Transport.** For agrarian development good means of transport are a must. Accordingly the C.D. programme makes a provision for the construction of local roads.

5. **Provision of Social Services.** The C.D. programme makes a provision also for education, health, housing, sanitation, etc., so that the villagers can have a better life and enjoy an increased measure of social welfare.

6. **Development of Co-operatives and Panchayats.** For effective implementation of their programme it is necessary that the villagers are organised on democratic lines and there is full participation on their part in the programmes. Thus, co-operatives and Panchayats are encouraged and developed further.

Organisation of the Operation of the C.D. Programme. The unit of the Community Development is a Block which on an average consists of 100 villages with a population of 50,000 to 70,000 persons. Originally, the development of the block was divided into 3 phases or periods. The *first phase* was known as the *N.E.S. phase* during which there was an intensive development of the block. The *second phase* was known as the *C.D. phase* during which the activities were less intensive. Thereafter, the block entered the *third stage* known as the [illegible] *period.* The division of the block into 3 [illegible]
It gave an impression that the developme[illegible]
within a period of a few years. Thereafter, the block was not to be

developed at all. In order to remove this artificial classification of the development stage, the Balwantrai Mehta Team suggested some modifications. According to which there is only one single scheme for the development or a community block. This scheme is spread over a long period of 12 years, divided into two stages of 6 years each. During the *first stage* the budget allocated to the block is Rs. 12 lakhs and Rs. 5 lakhs for the *second stage*. Even after the completion of the period of 10 years, the block is not to be abandoned but continued till the complete reconstruction of the rural area is achieved.

Administration. The administration of the movement may be divided into various layers. At the *lowest level*, there is a Village Level Worker to guide the villagers in their various activities like agriculture, education, health, sanitation etc. The highest officer at the *block level* is the Blook Development Officer (B.D.O). He is assisted by a number of technically qualified staff like civil engineers, doctors, veterinary surgeons and agricultural scientists. This technical staff gives instructions to Village Level Workers who pass them on to the villagers. Above the B.D.O. there is Development Commissioner belonging to the Government of the State in which the area is located. His function is to bring about co-ordination in the activities of the various Block Development Officers in his area (*i.e.*, the State). At the *highest level*, there is a Minister of Community Development in the Central Government.

The Process and Techniques of C.D. Programme. The method of Community Development may be broadly divided into 2 processes. One is the Extension Education and the other is the Community Organisation. (i) *Extension-Education aims at improving the proper knowledge, insight and desire to improve the conditions of living.* Extension also helps the people to carry out difficult activities efficiently. (ii) As regards the Community Organisation, there are 3 basic institutions namely, the village panchayat, the village co-operative and the village school. The panchayat, is to function as a civic and develop- [illegible] and the village [illegible] other com- [illegible] *dal, Dasta-* [illegible] These other [illegible] and finan- [illegible] *ent and be* [illegible] is a demo- [illegible] *llage school* is to be developed as the community centre. [illegible] the community development programme has tried to recreate the 'village-culture.' The community has to be educated to understand what education can contribute in terms of its welfare.

Achievements.

There is no doubt that a certain measure of success has been achieved. The initial difficulties inherent in organising any new move- [illegible] have been considerably overcome, *institutions for providing*

training to all categories of personnel required in running in movement have been set-up and are working satisfactorily; substantial phsical targets have also been reached in agricultural improvement and local community works, the programme [illegible] technicians and elected representatives t[illegible] together hundred of villages in each blo[illegible] break to some extent the old age isolation of villages.

With 5,123 C.D. block the whole country stands covered by this programme. In the First & Second Plans the total amount spent was Rs. 233 crores. In the Third Plan the expenditure increased to Rs. 267 crores. During Fourth Plan Rs. 115 crores were spent for the purpose. During Fifth Plan Rs. 150 crores were spent on this programme. The amount of people's contribution came to Rs. 217 crores till 1981-82.

Failures and Weaknesses.

The Planning Commission has set up a separate Programme Evaluation Organisation which carries on a continuous evaluation of the community projects. These reports have drawn special attention to the following drawbacks of the whole programme :—

1. Insufficient Attention Paid to Agricultural Improvement. Investments made so far under C.D. schemes have tended [illegible] the direction of *means of* [illegible] such as wells and sch[illegible] improvement. It is a case of mistaken priorities.

2 Little Improvement in Agricultural Techniques. While the use of improved seeds and fertilizers has generally increased in community development areas the pace of adoption of other improved cultural practices has been slow, such as that of fine sowing, the Japanese method of paddy cultivation, seed treatment and intensive manuring. Shortages of fertilizers and improved seeds and lack of irrigation facilities have been cited as reasons for the slow progress. The distribution system in respect of them is very defective.

3. Short f[illegible] Extension of irrigation facilities and [illegible] nd and removal of pests and diseases [illegible] of anticipated levels. The Seventh Evaluation Report noted that the lack of irrigation facilities was cited as a problem in the largest number of blocks. Pests and diseases and soil-erosion were also serious problems in many blocks.

4. Slow Progress of Animal Husbandry. The programme for the development of animal husbandry, has not yet made sufficient progress. The popularity of artificial insemination has increased, but there is inadequacy of the number of insemination centres. Also the number of pedigree bulls distributed in a number of blocks falls short of their targets for this programme. Furthermore, in several blocks there is no definite programme for increasing the acreage under fodder crops.

5. Unsatisfactory Progress in Education and Health.

"In any scheme of planned economic development of the country... agricultural reorganisation and land reforms hold position of basic importance." —*Ist Plan*

14

AGRICULTURAL DEVELOPMENT IN THE PLANS

Q. 37. Disuss the development of agriculture under Planning in India. *(C.A. 1976 ; Rajasthan 1978)*

Or

Describe briefly the progress of agriculture under the Five-year Plans. Also account for the slow rate of growth in Indian agriculture. *(Pb. B. Com. 1978, Kurukshera 1981)*

Or

Discuss the trends of agricultural production during the three Five-year Plans in India.

Ans. Agriculture is the most important sector of our economy which contributes about 45% of the national income, provides employment to about 70% of our population and contributes substantially to under export earnings. This importance has been realized in all our 5-year Plans. For example, the First 5-year Plan noted that the development of all other sectors, like industries, export, transport, etc. depends upon the progress of agriculture. "In any scheme of planned economic development of the country, therefore, agricultural re-organisation and land reforms hold position of basic importance. Recently on account of the growing need for food and raw-materials, this importance has been brought home to all sections of the community, the success of the whole Plan will vitally depend upon the results achieved in making the most advantageous use of the land labour resources engaged in agriculture. In this sense, the importance of agriculture is both basic and vital."

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(8) **Greater Use of Unskilled Labour.** Efforts should be made to make use of unskilled labour which is abundant in villages and which can contribute to the economic development of the country through the intensification of agriculture, soil conservation, minor irrigation, afforestation, etc.

(9) **Better Co-ordination.** There should be *better co-ordination* between the various organisations and agencies carrying on development work in the project areas. Greater attention should also be given to the selection and training of community project pessonnel.

(10) **Improvement in Communication.** Finally a clean line of communication should be established from the top to the bottom and vice versa for conveying the programme to, and ascertaining the reactions of the people.

(11) **Larger Role of Panchayats.** Panchayats should be able to rely to an increasing extent on their own activities for the welfare of the community. In order to do this adequately, they should be able to count on more revenue from the money raised locally. This should partly be done by allotting to panchayats a large proportion of the collection of land or other rural taxes. Panchayats should be charged with making development plans at the village level.

Conclusion.

The Government is aware of the vasious shortcomings and it is continually examining the various suggestions what has been forwarded for removing them. It has already accepted the main recommendations of the Balwantrai Mehta Committee and the Community Development Evaluation Mission. We must not, however, forget that it may be easy to introduce measures of democratic decentralization, but whether these will be successful is quite a different question. When it comes to their actual practice, we cannot help entertaining doubts regarding the capabilities of Panchayat Samities and other elected bodies at local leves, because in the past such bodies have seldom been successful in discharging
deep-rooted
significance c
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also benefited by getting the stapled cotten and jute growing areas. And relatively much large acreage of the irrigated area. To overcome these short-falls, the First 5-year Plan gave predominant importance to the development of agriculture and irrigation. It allocated Rs. 758 crores which was about 33% of total public sector outlay of Rs. 2,356 crores of the First Plan. It was expected that the index of farm output would increase from about 100 in 1949-50 to 114 in 1955-56. The details of the targets of the various agricultural products are given in the foll[illegible] f the targ[illegible] t of the c[illegible] d jute. [illegible] t about a fall in the prices in the country.

Crop	Unit	Target	Actual Production	Over-achievement (+) or under-achievement (−)
Food-grains	Million tons	61·6	65·8	+4.2
Oilseeds	Lakh tons	55	56	+1
Sugar-cane	,, ,,	63	60	+3
Cotton	,, bales	42	40	−2
Jute	,, bales	54	42	−12

The above-referred targets were expected to be achieved through various measures like institutional reforms, organizational changes, structural changes and technical progress. The realization of targets was due not to these changes but also to the weather-gods. The effects of increase in food production were quite favourable. India became self-sufficient in foodgrains. The price index for agricultural commodities (1952-53=100) came down to 92 8. Thus the increase in farm output during the First Plan helped to end inflation, stabilised the economy and paved the way for a higher rate of development during the Second Plan.

Second Plan. The over-fulfilment of the First 5-year Plan target of food output made the planners think that the food problem was solved and that the agricultural base [illegible] Hence, they devoted a relat[illegible] e total public outlay (of Rs. [illegible] First Plan. In money terms, however, the outlay in the Second Plan was higher. It was Rs. 1,054 crores as compared to Rs. 758 crores in the First Pl. The targets originally fixed for the Second Plan which were

much lower were revised upward and they were as given in the following table. The targets were to be achieved by the same measures as those in the First Plan The following table gives the actual production at the end of the Second Plan. The targets were realized only in the case of tea and sugar-cane. The targets of all other products were not realised and hence the prices had started spiralling during this period.

Crop	Unit	Target	Actual production in 1960-61	Over-achievement (+) or under-achievement (—)
Food-grains	Million tons	80·5	78 7	—1·8
Oilseeds	,, ,,	7 6	6·5	—1·1
Sugar-cane	,, ,,	7·8	10 4	+2·6
Cotton	,, bales	6·5	5·4	—1·1
Jute	,, ,,	5·5	4 0	—1·5
Tea	,, lbs.	700	725	+25

Third Plan. The Third 5-year Plan gave predominant emphasis to agriculture. One of the major objectives of the Plan was to achieve self-sufficiency in food-grains and to increase agricultural production for exports. It says, "In the scheme of development during the Third Plan the first priority necessarily belongs to agriculture. Experience under the first two Plans and especially in the Second Plan has shown that the rate of growth in the agricultural production is one of the main limiting fac[illegible] duction has [illegible] adequate re[illegible] ing the agricultural production............ The rural economy has to be diversified and the proportion of the population dependent on agriculture gradually diminished. These are essential aims if the income and levels of the rural population are to rise steadily and to keep pace with income i[illegible] programr[illegible] tion is th[illegible] possible and potential of each area should be developed to the possible extent." With this end in view, the Plan allocated almost 21·5% of the total public sector outlay of the Plan *i.e.*, Rs. 1,754 crores out of Rs. 8,577 crores. The targets and achievements of the major agricultural crops were as stated below :—

Crop	Units	Target for 1965-66	Actual Production for 1965-66	Over-achievement (+) or under-achievement (—)
Food-grains	Million tons	1000	72·3	—27·7
Oilseeds	,, ,,	9·8	6.1	— 3·7
Sbgar-cane	,, ,,	10 0	11·8	+ 1·8
Cotton	,, bales	7·0	4·7	— 2·3
Jute	,, ,,	6·2	4·5	— 1·7

In short the Third Plan failed on the agricultural front. In contrast to the targeted increase of 30% or 6% per year in food-grains a bare 10% or 2% per year was realised; at the same time, the index of food-grains prices had shot up from 118.4 in 1961-62 to 168 8 in 1965-66. As a consequence of the short-fall in food production foodgrains worth Rs. 110 crores were imported between 1961-62 and 1965-66. This strained our foreign exchange positions still further.

Fourth Plan.

[illegible]

in the agricultural sector were as follows :

Crops	Production in 1968-69	Targeted production in 1973-74	Percentage increase
Food-grains (million tonnes)	98·8	129 [illegible]	31
Oilseeds (million tonnes)	8·5	10·5	24
Suger-cane (million tonnes)	12·0	15·0	25
Cotton (million bales)	6·2	8·0	33
Jute (million bales)	6·2	7·4	19

The strategy of achieving the targets is the extension of IADP and HVY progrmmmes, multiple cropping, raising the yield of major commercial crops, etc. The Appraisal of the Fourth Plan has shown average growth rate of 5·2 per cent in the agricultural sector. After touching 108·42 million tonnes in 1971-72 food production showed a downward trend in 1972-73 (95·20 million tonnes) and in 1973-74 the production increased to 111 million tonnes.

Fifth Plan. In this Plan, Rs. 7411 crores were allocated for agriculture *i.e.* 20% of total Plan outlay, but acutal Rs. 8013 crores were spent. The following table shown growth of agriculture during 5th Plan.

	Food-grains	Cotton	Jute	Sugar-cane	Oil-seeds
Plan Target	140 mn. tons	8 lakh bales	7·7 lakh bales	17 mn. tons	14 mn. tons
Actual	131·9 mn. tons	7.9 lakh bales	6·5 lakh bales	15·7 mn. tons	9.4 mn. tons

During this Plan 54·3 mn. hectares were to be irrigated but actually 50 6 mn, hectares were irrigated. The annual agricultural growth rate come to be 4·2% in 5th Plan.

Sixth Plan. Agriculture with 5·8% allocation which together with allocation under "Rural Development" accounts for 11·3% of the total outlay. If one adds to it the expenditure on "Irrigation and

Food Control", mostly relevant to agriculture, which claims 12·5% of the total public sector outlay, the resources denoted to the rural sector becomes sizable at about 24%.

Targets	1979-80	1984-85
Rice	51·24 mn. tons	63·00 mn. tons
Wheat	35·64 ,, ,,	44·00 ,, ,,
Sugar-cane	175·80 ,, ,,	215·00 ,, ,,
Cotton	7·34 ,, bales	9.20 ,, bales
Jute	5·66 ,, ,,	6·96 ,, ,,
Oil-seeds	10·20 ,, tons	13·00 ,, tons
Tea	564·00 ,, kg.	705·00 ,, kg.
Tabacco	465·00 ,, kg.	525·00 ,, kg.

Over-all Growth.

Between 1950-51 and 1980-81 the trend rate of growth was 2·7%. In the first decade from 1950-51 to 1960-61 it was lower at 2·1%, in the second decade from 1960-61 to 1970-71 it was 3·2% and during third decade from 1970-1971 to 1980-1981 it was 3·5%. Plan-wise growth-rate was 4·1% in the 1st Plan, 4% in the 2nd Plan, (—) 1·4% in 3rd Plan, 6·2% in Annual Plans, 2·9% in the 4th Plan and 4·2% in 5th Plan.

Broadly speaking, the progress in agriculture has neither been adequate nor just. The overall state of agriculture continues to be one of the backwardness and large many who belong to it suffer from poverty.

Criticism of Agricultural Planning in India.

The following are a few points of criticism of agricultural planning in India :—

1. **Self-Complacency.** The First 5-year Plan wisely gave a top priority of agriculture. But the Second 5-year Plan failed to give agriculture a proper place. It appears, the success of the First 5-year Plan, which was primarily due to a series of favourable Monsoons created a sense of self-complacency.

2. **Quick-Yielding Projects Not given Sufficient Importance.** Projects having a long gestation period were given undue importance and those with a short function lag were not given sufficient importance. Minor irrigation works did not receive the attention they deserved. More attention was given to expansion of irrigation potential and less to maintenance of existing works so that increase in irrigation potential was neutralised by loss of irrigation potential.

3. **Unproductive Expenditure.** Unnecessarily large sums were provided for unproductive expenditure.

4. **Inadequate Provision for Rural Credit.** The annual credit requirement of the Indian farmers have been estimated at Rs. 10,000-12,000 mn. whereas the provision is not even for Rs. 350 mn. Without adequate credit facilities agriculture cannot progress.

"Unlike England, there is taking place industrial evolution."

15

EVOLUTION OF INDUSTRIES

Q. 38. Trace the growth of capitalist enterprises in India in 19th century and early 20th century and account for retarded development of large-scale industries in India. *(Pb. M.A. 1979, 1977)*

Or

Trace the growth of capitalist enterprises in 19th century and discuss the role that foreign capital played in industrial development of India. *(Pb. M. A. 1981)*

Or

Trace the growth of modern industrial enterprises in India during present century. How far is it true to say that the achievement of Independence in 1947 ushered in a new era in industrial development of India ? *(Pb. 1980, 1976 Pb M. A. 1967)*

Ans. On the ruins of the foundation of our once prosperous handicrafts towards the close of nineteenth century appeared one or two large-scale modern industries in India. During the period between the decline of handicrafts and the establishment of big factories requirements were met by imports of British machine-made goods.

The two enterprises that sprang up in India in the middle of the nineteenth century were cotton and jute—the former by the Indian capital and the latter by the European capital. The first cotton mill was started in 1853 but it was not well established till the close of the century. The beginning of the famous Empress Mill in 1887 in Nagpur by Mr. J.N. Tata enhanced the development and it was followed by the development in other parts of India, Bombay Presidency being the important centre. The industry went on making rapid development despite temporary setbacks like plague between 1884-92 and removal of import duties on British imports of piece-goods. In the beginning of the present century, Japanese competition also began making itself felt but by 1914 India had become the fourth biggest cotton manufacturer in the whole world.

For the *first time export of jute took place from India in* 1838 but manufactures of jute began after 1854 when by the opening of Rani

5. No Provision for Agricultural Inputs. There has had been no co-ordinated provision for the simultaneous production of agricultural inputs like fertilizers, pesticides, cement, etc.

6. New Farming Techniques Not Enforced. In agricultural planning in India, no concrete steps were taken for the adoption of new agricultural techniques and for standardizing farming practices.

7. *Lack of Suitable Price Policy.* *Unless farm-output* programmes are backed by a suitable agricultural price policy providing price support and incentives to the growers, things might go wrong and they have actually gone wrong in India.

8. Morale Neglected. India is passing through a crisis of confidence. The planners did not provide for any concrete measure to keep up the morale of the people.

9. Unrealistic Planning. The failure to achieve targets indicates the unrealistic element in agricultural planning in India The physical targets have proved to be "paper targets" treating irrigated area from all sources alike and to put all types of food-grains superior and inferior together and above all to split up minutely the total allotment under different headings assigned to different authorities, are a few instances of unrealistic planning.

10. Delay in Land-reforms. Land-reforms have not been implemented and whichever implemented, have been delayed much.

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Ganj coal fields fuel became available. The first jute mill started working in 1855 at Rishra near Sirampur where an European George Auckland, brought a jute Spinning Machine from Dundee. The First power loom was installed in 1859. The gunny cloth produced was of inferior quality. In the beginning of 1870's there was a big boom in jute industry and many companies were constituted. By 1884 the competition had grown excessive and a Jute Association was made to control supplies. At the close of the 19th century, the jute industry had firmly established itself and was offering a serious competition to Dundee. By 1908 the Indian production surpassed the production of Dundee. By 1914 the industry was enjoying prosperity.

But apart from these two big industries, no other industry of any significance came to be developed in India except a few engineering works and tea and coffee plantations. Engineering works developed first as a result of railway construction but later on were extended to other fields. The plantation industry first appeared in 1833 but became important only after 1860

The Tata enterprise in the beginning of present century led to the establishment of Tata Steel Works in 1907 and iron manufactures began in 1909. By 1914, India had a few industries of importance. She was deficient in the production of her daily requirements except food and part of clothing and bulk of the needs of the urban areas were fulfilled by imports from foreign countries.

The First World War Period. This war period was a period of natural protection to Indian industries. Prices increased and there was a very great increase in the demand for Indian products for war purposes. The cotton mill industry in Bombay, jute and coal mining industries in Bengal and tanning, leather, soap, fish, tinning and ship-building in Madras were encouraged Bombay was benefited the most due to its proximity to the foreign market and paper, flax and oil industries were also started. But the main difficulty was in getting of machinery and other equipment. Fuel also created a difficulty, cutting of the important imports like German dyes created difficulties for the industries already started.

In 1916 the Government established a Munition Board to control the purchase and manufacture of Government stores and munition of War. This resulted in a big organisation being started with 22 branches all over India and thus an indirect encouragement to our industry. This was followed by the appointment of an Industrial Commission which reported, "In future Government must play an active part in the industrial development of the country with aim of making India more self-contained in respect of men and material."

Inter-War Period. After the crisis of 1920, industries started demanding protection which was given in 1923 and the first industry which got it was iron and steel industry. This was followed by cotton, sugar, matches, papers and some others. Jute industry also continued to make progress except during depression, when over-production r... prices of jute and brought losses.

"The progress registered by Indian industries between 1922-39 shows that during these 17 years the production of steel increased by 800%, cotton-piece goods by 250%, matches by 38%, paper and paper board by 180%, sugar by 800%, cement by 95%. Towards the close of inter-war period, the manufacture of electrical goods was also started. A considerable progress was recorded and number of factories increased from 2,936 in 1914 to 11, 613 in 1939.

The Second World War Period. The World War II gave a big fillip to the development of Indian industries Orders on an increasing scale were placed for industrial products by the Government of India for itself and for Allied forces. It was during this period that industries like hydrogenated oil, basic chemicals, machine tools, transport equipment, power alcohol, synthetic resins and plastic etc. which until then had been almost non-existent, were started. Some of the important new industries starting production for the first time during War were (*a*) ferro-alloys, like ferro-silicon and ferro-managanese, (*b*) non-ferrous products like copper, copper sheets, wires, (*c*) mechanical concerns like diesel engines, pumps, bicycles, sewing machines, (*d*) chemicals like caustic soda, chlorine etc. The War stimulated the growth of existing concerns also. The industrial index which was 100 in 1937 increased to 120 in 1945. The number of companies in 1945 increased to 148, 959 from 11, 114 in 1939.

Post-war Period (1945-47). This was a period of industrial crisis and production in most of the industries was below the average level during the War.

The Period between 1947-50. The period was more or less stagnant and from 1951 onward we had a rising trend in industrial output. The volume of industrial production has grown largely. The industrial index which was 100 in 1951 was 360 in 1981. A large number of new industries, petroleum refining ; locomotive and wagon-building, ship-building, aircraft manufacture, chemicals, automobiles, fertilizers appeared. Industrial products, coal mining machinery, steel castings, road rollers, earth moving equipment, tractors, sulpha drugs, and newsprint etc. hitherto not manufactured began to be produced. Production in existing major industries like sugar and salt increased largely. Mill cloth increased by 400%, sugar by 500%, jute manufacture by 200% during 3 decade sbetween 1951-81.

On the whole, the industrial progress in India has been quite satisfactory and in recent future she can put herself on the high road to modern industrial progress.

Q. 39. Review the Industrial Development of India during 1850-1960.

Ans. Industrial Development between 1850-1914. Before 1850 the factory industry was conspicuously absent in our country. There were craftsmen who manufactured silk, cotton and woollen fabrics and various other luxury products. There were also the iron-smelters of Mysore, Chota Nagar, Central Provinces and other places, salt-petre

works, the bangle-makers and the general workers in glass, and also the paper makers etc But these cottage-industries started decaying before 1850, and afterwards their downfall became more rapid especially due to cheap imports and the altered conditions in which exports of raw-materials and imports of manufactures were encouraged.

Although there was no large-scale industry in our country before 1850, the beginning of modern industrial enterprise was already made towards the end of eighteenth century when some ex employees of the East India Co. started indigo plantations, who had enterprising spirit and capital to invest but could not undertake foreign trade as the East India Co. had a trading monopoly upto 1833 and therefore, they had to turn their attention to indigo plantation. Early in the nineteenth century the ex-employees of the East India Co. and the Company itself started tea, coffee and later rubber plantations.

A cotton mill was started in Calcutta in 1831 but it did not live long. The first cotton mill was effectively constructed in Bombay in 1851 and started operating in 1853. The first jute mill appeared in Bengal in 1854. The coal mining industry started working earlier and the commencement of the industry seems to date back to 1820 when a mine was opened in Raniganj district in Bengal. But after this no new mine was opened for about 20 years and by 1844 there were only three mines in field. In the beginning these were the only 3 modern industries in existence in India. Although the beginning of modern industry in India dated from 1854, the factory industry did not make satisfactory development in the early period and it was only towards the end of 19th century that the condition of these industries was stabilised and afterwards the progress was more on less continuous with only occasional set-backs. The number of cotton textile mills rose from 58 with 13.33 thousand looms and 1·50 lakh spindles (employing a little less than 21,000 persons) in 1879-80 to 264 cotton textile mills with a little less than 6 75 thousand looms and 6·75 lakh spindles (employing nearly 2·60 lakh persons) in 1913-14. The number of jute mills rose from 22 with nearly 5,000 looms and a little less than 71,000 spindles (employing nearly 27·50 thousand persons) in 1879-20 to 64 mills with 36,000 looms and a little less than 7·50 lakh spindles (employing more than 2 lakh persons) in 1913-14. The output of coal rose from nearly 1·30 million tons in 1885 to 15.74 million tons in 1914. In addition to these industries a number of other industries such as woollen mills, paper mills, petroleum and manganese industries, came into being in this period. The production of minerals in India made heavy progress from 1895 to 1914 and the total annual value of mineral output rose from Rs. 6·50 crores in 1898-1903 to Rs. 12 60 crores in 1909-13. "The art of iron smelting and steel manufacturing has been known in India since ancient times but the first efforts to set up a modern factory were made in Madras in 1830, but in vain." It was in 1874 that the Barakar Iron Works, which later became the Bengal Iron Company, was set up. The real beginning of the iron industry dates from 1907 when the Tata Iron [illegible] was

formed as a result of the serious efforts of the great pioneer J.N. Tata. The Tatas produced their first pig iron in 1911 and the first steel in 1912. The original establishment consisted of two blast furnaces, a steel plant, and rolling mills and had an annual production capacity of 1,20,000 tons of pig iron and roughly 80,000 tons of rolled steel. In the beginning, production was small and the Tatas had to experience great difficulties but gradually production rose.

The beginning of joint stock enterprises in our country was made but the progress in the early period was very slow and the industrial evolution of the country had the following chief features :—

(1) India being mainly an agricultural country, the prosperity of industry was linked with agriculture. There was a period of prosperity from about 1860 to 1875 when a terrible famine checked it. The progress began after about five years of adversity and from 1880 onward there was another fairly prosperous period. Then intervened two famines even more terrible than the previous one : but by 1900 the country had recovered somewhat, and the next 14 years or so, until the outbreak of the War, were mildly prosperous.

(2) The development of industrial enterprise in India has been linked with the political movement here and abroad. The industrial development of India was helped by the American Civil War, the Crimean War, the Indian Non-co-operation Movement and the World War I. There was no deliberate effort by the Government or a planned effort by Indian manufacturers in this period to industrialise Indian economy. It was only the impact of Industrial Revolution in Britain and the political movement in India and abroad that led to a slow and gradual Indian industrial evolution.

(3) The industrial progress of our country was stimulated by the opening of the Suez Canal in 1869, and by the network of railways which opened up the plantations and set up jute mills in India, [illegible] e first to adopt [illegible] dern machinery. [illegible] the amount of the British Capital investment alone has been calculated at more than £260 mn. in 1909-10. But in spite of all this, the industrial progress of the country was slow due to lack of finances, inadequate means of transport and lack of scientific knowledge, technical skill and initiative on the part of Indian entrepreneurs. It was only towards the end of the period that the bold efforts of J.N. Tata in starting an iron and steel factory at Jamshedpur gave some indication of the growth of Indian enterprise.

(4) The development of Indian industry from the very beginning has been lop-sided in the sense that only some industries were started, such as iron and steel, cotton and jute textile mills, coal, cement and paper manufaturing but no attention was paid to the machine manufacturing industry, heavy-chemicals industry, ship-building, machine

tool industry, electrical and general engineering industries. Whenever an Indian businessman tried to start a factory, he never thought of these new possibilities and units were set-up in the already existing industries. It was not in the interest of the British people to start their heavy and key industry as they would have competed with similar enterprise in their own country (U.K).

(5) From the beginning, industries grew up only in some localities in India which became over-crowded while other localities which would have been equally good did not attract industrialists because either they did not know of them or they did not care to go there.

Industrial Development between 1914-39.

Indian industry got 'encouragement' from the War demand, the Swadeshi Movement and a change in Government's *laissez-faire* policy and the grant of tariff protection since 1923. The War meant to the farmer a loss of old export markets To the industrialist it meant, as in the case of cotton and coal, a cessation of foreign competition or as in the case of jute, manganese and other minerals useful for munitions, the creation of the special demand. The price of manufactures increased while the increase in the price of raw-materials was comparatively less and wages went up a little, during the War period. Further, the difficulties of importing machinery and other stores strengthened the position of existing manufacturers who in all industries made phenomenal profits especially during the later War years. In spite of many difficulties the increased demand in the War and post-War period resulted in the development of Indian Industry.

The Industrial Commission which was appointed in 1916 (which reported in 1918) recommended : "(a) the establishment of imperial and provincial developments of industry, (b) organization of scientifical and technical services, (c) grant of greater facilities for industrial and technical education, and (d) an alteration in the stores purchase policy of Government. The Commission also recommended the grant of direct assistance in certain cases and the setting up of pioneer and demonstration factories. The major recommendations of the Commission were accepted by the Government and this helped the industrial development of the country." (—*P.C. Jain*).

The Indian Fiscal Commission recommended the grant of discriminating protection to industry. The Government accepted the policy of discriminating protection and it was embodied in resolution passed by the Legislative Assembly in February 1923. The Tariff Board which was made in July 1923 recommended protection to the cotton textile and agriculture industries, iron and steel and allied industries, bamboo, paper, match, sugar, heavy chemicals, and gold thread industries. The Tariff protection of these industries although halting and inadequate, helped their development. In consequence, a number of existing industries were enabled to increase their output and new ones to come into being.

The production of finished steel, cement and coal also gives some idea of industrial growth which rose from 67,000 tons, 1,000 tons and 16·5 million tons respectively in 1914 to 9,35,000 tons, 1·4 million tons and 27·8 million tons respectively in 1939. But in spite of the fact that a considerable progress was recorded in industrial output and the number of "factories" rose from 2,936 in 1914 to 12,630 in 1939 and the number of workers employed in these factories increased from 9·50 lakhs to 17·50 lakhs, the industrial development of the country remained lop-sided and defective. Except for the iron and steel industry there was in this period hardly any organised industry manufacturing producers goods, and industrial progress was mainly continued to the production of consumption goods like cotton and jute manufactures, sugar, etc., or for processing agricultural material like cotton and jute, *e.g.*, gins and presses, rice mills, oil pressers, etc., and mining. Even for these industries, a good part of the chemicals, machinery and parts, had to be imported from abroad. The Indian industrialist followed traditional tone of development. A very large share of Indian capital went into trading as distinct from manufacturing enterprise. The profit motive was satisfied by earning money in a way which proved derogatory to industrial progress. Except for the pioneering spirit of J.N. Tata, who established an iron and steel industry in 1911 and a number of other enterprises, the Indian industrialists on the whole did not bother themselves about the future of the nation so long as they could earn profits by money-lending, exports for money commodities which could encourage the native industries.

Industrial Development between 1939-47.

The Second World War affected Indian industry differently from Indian agriculture. The decline in imports and the enhanced War demand for goods stimulated Indian industry. This created conditions for a rapid industrial development. Government made special efforts to develop the production of goods which were required for the prosecution of War. Indian industry was handicapped by many gaps in India's industrial structure as India did not manufacture armaments, machine tools, chemicals, automobiles, etc., whose demand rose on account of the War. There was also lack of know-how and technical skill. The transport system could not deal with the increased movement of raw-materials and finished commodities which the War necessitated. But in spite of all these handicaps Indian industry went forward and not only the output of existing industries such as machine-tools, general and electrical engineering increased, but also heavy chemicals came into existence.

In 1940, the Government announced that industries started during the War would be duly protected if they were organised on sound business lines. This gave a new shape to Indian tariff policy. The Government announced an industrial policy in April 1945. Under this 20 industries including iron and steel, machine-tools, cotton and woollen textiles, cement, sugar and coal were centralised. It was

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announced : "The Government of India consider that continuance of their existing policy in the condition is which India will find hereself after this War. will not meet the objectives of sound post-War developments Though industrially stronger than in 1939, India will find herself in a position of relative inferiority. In other countries technological advances have been immense and, as a result of the nature of modern warfares .there has been a striking increase in the total volume of skilled industrial labour. If India is to make a rapid headway and if the standard of living of the masses is to be effectively raised, a vigorous and sustained effort is necessary in which the State not less than private Industry must take part. The Government decided to take positive steps to encourage and promote rapid industrialisation of the country to the fullest extent possible. They attach particular importance to the development of these industries must take high priority, it must form part of a balanced plan in which due place is given to consumption goods industries. It is clear that if progress is to be achieved, the development of industry must be planned by the Government in co-operation with industry and every effort is to be made o make the plan effective." This statement of The Government's ıdustrial policy made it clear that "apart from ordinance factories, ıblic utilities and railways, basic industries of national importance may nationalised, provided adequate private capital is not forthcoming 1 it is regarded as essential in the national interests to promote such industries." For the purpose of Government policy, basic industries were defined as "including air-craft, automobiles and tractors, chemicals and dyes, iron and steel, prime-movers, transport vehicles, electrical machinery, machine-tools, electro-chemical and non-ferrous metal industries". A revised industrial policy was announced by the Government of India in April, 1948, and a practical shape was given to it in the Industries (Development and Regulation) Act, 1951 and the Industrial programme under the First 5-year Plan. The Government's industrial policy has played an active part in increasing the tempo of India's industrial progress.

In spite of the fact that Indian industry faced shortage of raw-material (which became more prominent after partition in 1947) technical skill, capital and transport, it has managed to develop on all the fronts The number of joint stock companies in India rose from 10,651 with a paid-up capital of Rs. 279·17 crores in 1938 to 21,853 with a paid-up capital of Rs.479·47 crores in 1947 and to 22,675 with a paid up capital of Rs. 569 56 crores in 1948. The number of labourers employed in factories rose from 1·74 mn. in 1938 to 2 64 mn. in 1945 and to 2 98 mn. in 1·47. The installed capacity for the production of electricity rose from 1·16 mn. kilowatts in 1939 to 1·41 mn. kilowatts in 1948. The output of finished steel, coal, cement, sulphuric acid, cotton piece-goods cotton yarn, jute manufactures, paper and paper-board, sugar and matches enhanced. Except in the case of some commodities such as cotton piece-goods, jute manufactures and sugar which experienced special difficulties there has been an all round growth in production during this period. A number of industries achieved higher levels of

production during the War period and the peak production of finished steel was achieved in 1941 at 1 mn. tons, of cement in 1945 at 2 2 mn. tons, of cotton piece goods in 1944 at 4,852 mn. yards of cotton-yarn in 1943 to 1,685 mn. lbs. of jute manufactures in 1942 at 1 3 mn. tons, of sugar in 1941 at 1·4 mn. tons, while the peak output in the case of coal, sulphuric acid and matches was reached in 1947.

Industrial Development betbeen 1951-61

The decade of planning saw some striking development in industry —in terms of the rate as well as the pattern of industrial growth. If judged solely by the rise in the index of industrial output the progress appears to be gratifying. But if the progress is viewed against the background of the objectives and priorities, it is found to be not quite uniformly satisfactory.

The index of industrial output recorded a cumulative rate of expansion of about 7% per year. But more significant than the quantum of industrial development has been the direction in which the expansion has taken place, especially under the Second Plan. During the First Plan period the main emphasis was on replacement and modernisation and on utilisation of the existing capacity to the full. Industrial production increased by 39% mainly by utilising the existing capacity. The production of mill-made cloth rose from 3,718 mn. yards in 1950-51 to 5,102 mn. yards in 1955-56, exceeding the targets by about 490 mn. yards. The anticipated targets in other existing industries like sugar, paper and paper-board, sewing machines, bicycles were also reached. Cement production rose from 2·7 million tons in 1950-51 to 4·6 million tons in 1955-56.

In the Second Plan it was possible to take up the development of new industries especially the capital goods industries, which constitute the basis for any programme for 'accelerated industrial growth'. The most impressive achievement during the period was the establishment
got capacity each in the
and the expansion of two
1 5 million tons of steel
ingot capacity. The output of steel ingots rose from 1·4 mn. tons in 1950-51 to 3·5 mn. tons in 1960-61 and of pig iron from 0 35 mn tons to 0·9 mn. tons. The availability of other essential industrial materials like aluminium (from 3·7 thousand tons to 18·5 thousand tons), cement 2·7 mn tons in 1950-51 mn. tons in 1955-56 and 8·5 mn. tons in 1960-61), chemicals and dye stuffs, of fuels such as coal and petroleum, and of power also increased substantially. Another important development had been the rapid growth of machine-building industries. By 1960-61 India was producing progressively increasing quantities of machine tools and machinery for use in agriculture and transport and for such industries as chemicals and pharmaceuticals, textiles, jute, cement, tea, sugar, flour, and oil mills, paper, mining etc. Indigenous manufacturing capacity now exists for most of the machinery and equipment required by the railways, except diesel and electric

locomotives. "A large variety of electrical equipment and scientific instruments are now being produced. The establishment of a heavy-machine-building plant and the foundry plant at Ranchi, the coal mining machinery plant at Durgapur, and the Heavy Electrical Project at Bhopal made the country less dependent on foreign countries. The progress made by chemical industries, particularly pharmaceuticals, heavy chemicals and fertilisers had also been significant. Modernisation and re-equipment of important industries, such as jute, cotton textiles and sugar were affected. In the case of the jute industry, the bulk of the machinery required for modernisation of the industry has been manufactured within the country."

Q. 40. How do you account for the slow industrialisation of India before World War I? (*Bom. 1978, 1976 ; Pb. M.A. 1980, 1977*)

Ans Rapid industrial progress depends upon several factors which before 1914 were almost lacking or less effective. Consequently the industrial progress of India upto 1914 had been extremely slow. The major deficiencies in the path of our industrial progress were :—

1. An Alien Government. The foreign Government was more interested in exploiting the country than in developing its industries. It wanted India to be a market for her industrial goods and a source of raw-materials and food. As Ranade remarks, "The great Indian dependency of England was during this (19th) century came to supply the place of the old colonies. This dependency has come to be regarded as a plantation growing raw produce to be shifted by the British agent in British ships, to be worked into manufactured articles by British skill and capital, to be re-exported to this dependency by British merchants to their corresponding British firms in India and elsewhere."

2. Selfishness of British Pioneers. It was the British who pioneered the industrial change in India. But they were not really interested in India's industrialisation or its all-round development. They were more interested in developing those industries and sectors which would supply raw-materials to England. At the same time, they were not interested in developing those industries which might compete with English manufactures. Their dominant motive was to amass wealth as quickly as possible ; and India offered this chance to the foreigners admirably.

3. Wrong Start. Industrialisation depends on the development of iron and steel and naturally these basic industries should have been started first. But due to various reasons this was not done. It was the plantation industries, textile industries, etc. which were first started. The iron and steel industry was developed only in the present century. India had to import machinery from abroad at very high cost. This hindered the rate of growth of industrialisation.

4. Laissez-Faire Policy. The Government of India under pressure from the vested interests in U.K. followed a policy of *laissez-faire*. Such a policy assisted British industries and was against the growth of Indian industries. The Fiscal Commission of 1921 emphasised the necessity of protection for the development of Indian industries.

5. **Railway Policy.** The railways were developed by the alien rulers in India not with a view to develop Indian industries, but to facilitate the transport of raw-materials out of the country and to distribute imported manufactures inside the country. The routes and the rates were arranged with this end in view. Thus, the railways, no doubt gave encouragement to industrialisation, but they retarded the growth of industries in India during the early stages.

6. **Unimaginative Indian Entrepreneurs.** The Indian entrepreneurs who set up industrial units never forgot their background—they were originally traders and money-lenders. They were interested in charging high prices and high profit margins rather than in lower prices and larger sales. Further they were more interested in sales rather than in production. So much so, during periods of War and shortage they were always tempted to hoard and black-market rather than increase production and benefit the community. Again, they were so shortsighted that they used to distribute all their profits as dividends without caring to accumulate surpluses for difficult periods or to provide for replacement and for renovation of machinery. Thus, the shortsightedness and unimaginativeness of Indian industrialists was an important factor for slow growth of industrialisation.

7. **Lack of Industrial Leadership.** The conditions here were not favourable for the emergence of industrial leaders especially because of the peculiar way in which factory industry came to our country. The factory came fully grown here and our people had no experience of its gradual evolution. The merchants and craftsmen in India were not experts like their counter-parts in Britain. The Indian merchants were concerned only with making profits and did not seek new fields. A survey of the most important industries in India shows that Indians were not pioneers. The initiative in starting most of the important industries in India was taken by outsiders.

8. **Paucity and Shyness of Indian Capital.** Another handicap to industrialisation was the lack of capital resources available in India. The vast majority of the people being poor farmers there was no scope for large savings. And whatever capital was there it was shy. Whatever capital was available was very costly.

9. **Lack of Technical Skill and Scientific Spirit.** When U.K. and other European countries took rapid strides in the field of science, technology and industry, India could not show the type of skill that was essential for industrialisation.

10. **Inefficient Labour.** Industrial production depends to a very large extent on the efficiency of labour. Unfortunately Indian industrial labour is comparatively backward and inefficient owing to lack of training, ignorance and poverty. The poor conditions in the factory and the low wages also contributed to this inefficiency.

11. Absence of Adequate Banking Facilities. The absence of adequate banking facilities was another major defect. Organised banking in India, outside the few important trade centres was almost unknown and even those banks that existed did not find it profitable to give their attention to finance industry.

12. Lack of Fuel. Modern industry needs coal. Though large quantities of coal are present in India, these are all located in a small area and the major part of India is unable to get adequate supplies of coal. As Prof. D.R. Gadgil has rightly pointed out, "The slowness of the growth of industries before the 20th century may largely be attributed to this. For it was only after the early nineties when an extensive railway system had already been built in India that the coal industry could expand".

"Before the birth of Plans, India witnessed industrial evolution, but after the birth of Plans, she is witnessing industrial revolution."
—*Malhotra.*

16

INDUSTRIAL DEVELOPMENT UNDER PLANS

Q. 41. Attempt a brief review of industrial development in India since the beginning of economic Planning in the country.

(Lucknow 1978 ; Pb. Uni, 1976 ; Pbi. 1978 ; Kurukshetra 1976 ; G.N.D.U. B. Com. 1982, Cal. 1975 ; Bombay 1978).

Or

Bring out the main features of industrial development in India during the period of Planning.

(Chartered Accountancy 1978, Delhi 1978).

Ans. Although India started the industrial race in the mid of the previous century, yet she remained as far away from the goal of an industrialised nation. Till 1947 the foreign Government took practically no interest in industrial develop[illegible] the crying need of the country was rea[illegible] after Independence but on account o[illegible] funds, industrial development did nc[illegible] the First Plan. But since the Second [illegible] rapid and long strides. The growt[illegible] during the last decade or so has been [illegible] as an industrial revolution.

We shall now briefly review industrial development in India in each of the successive Plans.

FIRST PLAN. Due to the small size of the First Five-year Plan, insufficiency of capital and urgency of agricultural development because of serious shortage of food and industrial raw materials, the First Plan [illegible] industrialisation i.e., development of consumption goods industries [illegible] lack of development of investment goods industries. It emphasised [illegible] need for correcting this lopsidedness and diversifying Indian in[illegible]

Financial Outlay. The total provision for large-scale [illegible] mining and research was Rs. 139 crores (i.e. 5% of the [illegible]

A sum of Rs. 49 crores (*i.e,* 2·1% of the total outlay) was allocated for village and small scale industries. The total provision for all types of industries, mining and research was Rs. 188 crores, out of which only Rs. 100 crores could be spent. Out of Rs. 463 crores expected to be spent by the private sector for industrial development, a sum of Rs. 340 crores could actually be spent. The shortfall was due to initial difficulties and administrative delays.

Achievements. In spite of the poor funds placed at the disposal of industry and in spite of initial difficulties, the First Five-year Plan registered a steady advance in the industrial sector. We may now enumerate the following achievements :—

1. **Accelerated Rate of Industrial Production.** The total industrial output rose by 39%, *i.e.,* about 8% per annum, production of capital goods by 70%, of intermediate goods mostly industrial raw-materials by 34% and that of consumer goods by 34%. Production roses on account of increased investment, larger availability of raw-materials and fuller utilisation of existing capacity.

2. ***New Industries and New Products.*** *Several new products* [illegible] the first time. A large number of new [illegible] *petroleum refining, ship building, manu-* [illegible] gons, penicillin, D.D.T., etc.

3. **Launching of State Enterprises** *Several* public sector undertakings were established, *e.g.,* Sindri Fertilizer Factory, Chittaranjan Locomotive Works, Integral Coach Factory, Indian Telephone Industries.

4. **Infrastructure.** The expansion of power and transport system and of several other facilities was built up.

SECOND PLAN. The Second Plan had been rightly called the Industrial Plan. It contemplated really a big effort at industrialisation. It aimed at laying the very foundations of industrial development in our country by starting a number of important heavy and basic industries.

Financial Outlay. The Second Plan had allocated a sum of Rs. 690 crores for industry and mining, which works out at 14·4% of the total public sector outlay as compared with 6·3% in the First Plan. In absolute term it meant an increase of 400% over the First Plan. In addition to Rs. 690 crores for large-scale industries and mining, a sum of Rs. 200 crores was provided to village and small industries. On the 'Appraisal' of the Plan in 1958, the provision for industry and minerals was reduced to Rs. 790 crores out of a total of Rs. 4,500 crores; the percentage rose from 14·4% to 17·5%.

The actual expenditure in the public sector on industries and minerals was Rs. 900 crores and investment in the private sector to Rs. 675 crores. Investment in the village and small industries by both the sectors was Rs. 265 crores.

Achievements. The following were the main achievements of the Second Plan in the field of industrial development :—

(1) **Increase in Production.** The index of industrial production (Base : 1950-1951=100) increased from 139 in 1956-56 to 194 in 1960-61.

(2) **Development of Iron and Steel Industry.** A great achievement of the Second Plan was the remarkable expansion of iron and steel industry. This was attained by the expansion of the existing iron and steel works and the setting up of three huge steel plants in the public sector : Rourkela, Bhilai and Durgapur.

(3) Expansion of the installed capacity of essential capital goods industries like cement and fertilizers is another highlight of the Second Plan achievements.

(4) Appreciable expansion of some other basic industries like heavy engineering and heavy chemical industries and that of the machine tool industry.

(5) Manufacture of new industrial goods e.g., boilers, tractors, motor cycles and scooters was a great achievement.

(6) Modernisation and re-equipment of the industries of national importance like jute, cotton textiles and sugar industry.

(7) Substantial progress was made in the sphere of village and small industries. About 6 industrial estates had been set up. Production of handloom increased appreciably.

THIRD PLAN. The Third Plan aimed at carrying on the process of industrialisation still further by building on the foundations laid under the Second Plan. The main emphasis in this Plan was laid on the establishment and expansion of basic producer goods industries with special emphasis on machine-building programmes and also on the acquisition of related skills and technical know-how and designing ability. The object was to make the economy self-sustaining and self-reliant so that in subsequent Plan periods it had not to depend on external assistance.

Financial Outlay. The Third Plan envisaged a total investment of Rs. 2,570 crores (public sector Rs. 1,520 crores and private sector Rs. 1,050 crores) in the industrial sector. In addition a sum of Rs. 150 crores was to be spent on replacements and modernisation in certain pre-War industries. A sum of Rs. 425 crores was allotted for the development of village and small industries (Rs. 150 crores in the public sector and Rs. 275 crores in the private sector).

Achievements. The following are the main achievements :—

(1) **Additional Capacity.** Substantial addition to capacity were made for the manufacture of machine tools, coal-mining machinery, steel marking machinery, paper machinery, sugar machinery, cement machinery, and cotton textile machinery.

(2) **Increased Output.** Several industries enhanced their output,

e.g., tyres and tubes, cement, automobiles, steel pipes and tubes, motor cycles, scooters, bicycles, paper and paper products, food processing, cables, refrigerators, etc.

(3) New Items. Several new items were produced on commercial scale, *e.g.*, tapered roller bearings, automatic lathes, heat control switches, taxi-meters, sheet [illegible] engineering side, new items
cal and tapered roller bea[illegible]
segmental saws, calendaring machines, sewing machines, etc.

(4) New Raw-Materials. Several raw-materials which were to be imported have been manufactured, *e.g.*, pulp for the manufacture of paper and rayon components for machine tools, electric motors, transformers and some basic chemicals.

Shortfalls. But progress in several crucial sectors was far from satisfactory, *e.g.*, steel castings and forgings, special steels, aluminium, fertilizers and machine tools.

FOURTH PLAN. Industrial Programmes. Particular attention was given to the production of machinery, fertilisers, fertiliser raw-materials, petroleum products. Some of the highlights of industrial targets of the Fourth Plan were as follows :—

(*i*) The installed capacity of the Bhilai Iron and Steel Plant was to be increased from 25 lakh tonnes to 35 lakh tonnes.

(*ii*) The first stage of the Bokaro Steel Plant was to be completed with capacity at 25 lakh tonnes.

(*iii*) The installed capacity of the Indian Iron and Steel Company was to be raised from 10 lakh to 13 lakh tonnes by 1971-72.

(*iv*) By adding two more blast furnaces in Korba and Koyna, the output of aluminium was to be raised by 100%.

(*v*) The production capacity in respect of chemical fertilisers was to be raised from 23 lakh tonnes nitrogen.

(*vi*) Hindustan Organic Chemicals Company was to manufacture several chemicals for the production of dyes.

(*vii*) Another newsprint factory with 60,000 tonnes capacity was to be set up.

(*viii*) The capacity of the Visakhapatnam Ship-building Yard was to be raised from 2·3 ships per annum.

Achievements. The Fourth 5-year Plan had been terribly let down by the industrial sector whose performance had been very poor. The growth rate in the industrial sector was well below the Plan target of 8 to 10%.

The poor record of overall industrial growth was largely the result of stagnation or even decline in the output of a few major industries, especially steel, textile and transport equipment.

The mid-appraisal document drew attention to the fall in the production of several items in the 'core' sector of industries, such as

iron and steel, copper, zinc and machine-tools. The things have not improved since then.

The fall in steel production had been attributed mainly to the operational difficulties of some steel plants in the public sector and deteriorating labour situation.

A review of progress of other core industries like non-ferrous metals, iron ore and some machinery items shows that the targets of many of them had not been reached.

In the non-core sector, although the overall performance was poor in 1973-74, as compared to the previous year, increase in production had been achieved in a number of industries such as cotton textile machinery, sugar machinery, commercial vehicles, automobile tyres, electric transformers, electric motors, electric fans, storage batteries and radio receivers.

Production of sugar which reached the record level of 42 lakh tonnes in 1969-70 fell to 37 6 lakh tonnes in 1970-71 and further fell to 33 lakh tonnes in 1971-72 due to non-availability of adequate supplies of cane to the mills. However, it was 38 lakh tonnes in 1972-73 and it was 43 lakh tons for below the target of 47 lakh tonnes in 1973-74.

As for mining and manufacturing, as against 7·7% annual growth envisaged, the actual growth was 5% in 1969-70. For mining and quarrying sector, the Plan envisaged 8% growth rate, but the achievement in 1969-70 was 6% and in 1970-71 an absolute decline of 1·2%. Large-scale manufacturing units registered only 5 9% growth in 1969-70 and 3·6% in 1970-71 as against 9 3% envisaged in the Plan. The index of industrial production which rose to 6 6% in 1968-69 and to 6·9% in 1969-70 declined to 3·5% in 1970-71. It picked up to 4·5% in 1971-72. In 1972-73, it increased sharply to 7%. All the same, [illegible] -d. For 1969-74 it was [illegible] index, however, does [illegible] of small-scale industries set up since 1960. The set-back in industrial production was mainly due to two factors those inhibiting utilisation of capacity and those inhibiting growth of capacity.

Industries in the Fifth Plan

Programme of industrial development in the Fifth Plan had been formulated keeping in view the objectives of self-reliance and growth with social justice. The Plan proposed to lay emphasis on the following :—

"(*i*) Rapid growth of core sector industries by giving high priority to steel, non-ferrous metals, fertilizers, mineral oils, coal and machine building.

(*ii*) Development of industries which promise a rapid diversification and growth of exports.

(*iii*) Enlarging the production of industries supplying mass con-

sumption goods, *viz.*, cloth, edible oils and vanaspati, sugar, drugs, bicycles.

(iv) Restraint on the production of inessential goods, except for exports.

(v) Development of small industries by reserving 124 items exclusively for them and by initiating an intensive programme for the development of ancillary industries as feeder industries to large-scale units."

Outlay on Industries during Fifth Plan.

	(Rs. crores)			
	Public Sector	*Private Sector*	*Total*	*Per cent of total*
Industries and minerals	8,328	5,200	13,528	25·3
Village and small industries	610	1,051	1,660	3·1
Total Investment	37,250	16,161	53,411	100.0

Total outlay envisaged in the Fifth Plan in organised industry was of the order of Rs. 13,528 crores ; out of which Rs. 8,328 crores were spent in the public sector and the balance of Rs. 5,200 crores in the private sector. The ratio of public sector vis-a-vis private sector outlay, therefore, worked out to be 62 : 38.

In addition to this, a sum of Rs. 1,660 crores was to be spent on small industry. The share of the public sector was Rs. 610 crores while the balance of Rs. 1,050 crores of investment was to be provided by private sources.

Progress of 5th Plan

It was expected that with this magnitude of investment, an annual rate of growth of 8·1 per cent was expected to be achieved in the Fifth Plan. *With the sharp rise of prices, the costs of all industrial projects* went up. Consequently, the physical component of the programme was pruned. *Coupled with the energy crisis* which impeded utilization of capacity, the chances of achieving an annual rate of 8 per cent come to be dimmed. *The growth rate in the 5th Plan 5·9% only.*

Sixth Plan. The Plan envisages an average annual rate of growth ... during 5-year period. *Rs. 45,515 crores* ... 6th Plan. The output of coal ... mn. tonnes, of iron ore 39 mn. ... ots from 9·62 mn. tonnes to 14·45 mn. tonnes, of cement from [illegible] mn. tonnes to 34·50mn. tonnes, of sugar from 3·90 mn. tonnes to 7·64 mn. tonnes, of cloth from 40 85 mn. metres to 49.00 mn. *metres, of Jute* manufactures from 13,36,000 tonnes to 15,00,000 *tonnes.*

Besides this remarkable expansion of industrial production, the Five-year Plans have tried to evolve a suitable pattern of our industrial structure by rectifying pre-planning drawbacks. There has been likewise a development of the decentralised sector. Measures have been

taken which aimed at dispersal of the industries into rural areas and developing new industrial centres to bring about regional balanced development. The expansion of the public sector fits in with our objective of socialistic pattern of society.

This is no mean record. Industry has accomplished in the course of 30 years what it was unable to do in the preceding one hundred years.

Causes of Slow Progress. "However, judged from any standard, the pace of industrialisation has been slow indeed. The high priority [illegible] even in [illegible] affected [illegible] port, fuel and essential raw-materials and components. Faulty and incomplete planning is to blame much more than shortage of foreign exchange. The lack of adequate preparatory planning largely contributed to the delay in implementation."

Industrial planning in India is full of drawbacks. Some of these drawbacks are given below :—

1. *Lack of Preparatory Action. Sufficient attention was* not given to planning preparatory action before the projects were started. Thus delayed implementation caused a loss of time and loss of some valuable resources.

2. **Unrealistic Planning.** That our planning was unrealistic is seen from the fact that the proposed targets were not put even approximately achieved. For instance, out of Rs. 94 crores provided in the public sector for industry in the First Plan, only Rs. 57 crores could be spent. Similarly in the private sector a sum of only Rs. 340 crores could be spent on new projects, replacements and modernisation against the proposed sum of Rs. 463 crores. Something was wanted somewhere of which the planners had not taken any notice.

[illegible] In several [illegible] production [illegible] and even the final report mentions shortfalls in some key areas of production, such as alloy tools, stainless steel, fertilizers, cement, paper, etc.

4. **Low Priority.** In the beginning of planning, *e.g.*, in the First Plan, industry was given a very low priority. To allot a mere Rs. 94 crores for large-scale industries in the public sector out of total investment of Rs. 707 crores for industry was ridiculous. Similarly, the village and small-scale industries got only 2% of the total Plan expenditure. Whatever the reason, the fact remains that industrial development was practically ignored in the First Plan. *That was not* good.

5. **Lack of Co-ordination.** Simultaneous action is required on several fronts before an industrial enterprise can work [illegible] This was not always done and consequently bottlenecks [illegible] Either the raw-material was not available or the machinery [illegible]

or power was not available or the transport bottleneck kept coal at pith-ends. Several concerns remained idle.

6. **Unbalanced Regional Development** Efforts at bringing about a balanced regional development have not met with success. At the time of location of new plants many political pulls are exercised and it has often happened that the already developed regions get further doses of development.

7 **Squeezing of Private Sector.** "Private sector is being progressively squeezed out. The First Plan started with an investment of Rs. 230 crores in the private sector and Rs. 94 crores in the public sector. In the Second Plan there was an investment of Rs. 770 crores in the public sector and Rs. 850 crores in the private sector. The public sector was thus catching up. In the Third Plan, the proposed investment in industries in the private sector was Rs. 1,185 crores and in the public sector Rs. 1,808 crores. Thus the tables were completely turned. The private sector often complains of the shortage of raw materials, accessories and finance because the Government mops up all the savings. They say that State enterprises do not observe the labour laws and soon."

8. **Rising Costs Not Considered.** Many estimates were upset because the prices were lower at the time of the *formulation of Plan* and much higher at the time of implementation. This is very important aspect and should have been given proper weight by our expert planners.

9. **Dependence on Foreign Technicians.** For self-reliance, it is surprising that the planners did not pay enough attention to developing local skills or indigenous materials. Dependence on foreign technicians is politically dangerous and economically costly.

10. **Unfavourable Capital-output Ratio.** ' In the First Plan period 38% increase in investment resulted in 40% increase in out-put. the capital-output ratio was thus 0·8%. During the Second Plan, however, an increase in capital investment of 117% resulted only 40% increase in output, the ratio becoming 3·0%. This does not speak well of our industrial planning."

"In this age of large-scale industry, it seemes as if the days of cottage and small scale industries are already over. But this is a very hasty and absolutely wrong conclusion. In fact, such industries have not only a very important but a vital role to play in the economy of our country particularly under the peculiar conditions existing now."

—*S.C. Kuchhal*

17

COTTAGE AND SMALL SCALE INDUSTRIES

Q. 42. What is the importance of cottage and small-scale industries in Indian economy ? What measures have been taken in recent years to integrate them in the economic set-up of our country ?

(*Kurukshetra 1981, 1978 ; Bombay 1980 ; Banaras 1976 ; Rajasthan 1979 ; Jammu 1982 ; Vikram 1976 ; Jiwaji 1978 ; Kurukshetra B. Com. 1981*)

Or

Examine the role of small-scale industries in the economic development of India. (*Delhi 1978 ; Madras 1981 ; Osmania B. Com. 1981 ; Agra 1978 ; Bombay 1976 ; Himachal 1981 ; Kashmir B. Com. 1980*)

Or

Make out a case for the development of small-scale industries in an under-developed country like India.

(*Pbi. B. Com. 1982 ; Pb. B. Com. 1981 ; Allahabad B Com. 1980*)

Or

Examine the importance of small-scale industries in the industrial structure of India. What steps would you suggest for improving the competitive capacity of the small-scale industries ?

(*Himachal 1982 ; Delhi 1979 ; Meerut 1978*)

Or

Examine the role of small-scale industries in India's industial development. (*Karnataka 1976*)

Or

What place has been given to cottage industries in our 5-year Plans ? Is the importance given justified ? (*Allahabad 1976*)

Or

Review the progress made by cottage and small-scale industries under Five-year-Plans. (*C.A. 1978*)

Ans. In modern age of heavy industry, it appears as if the days of small scale industries are over. But this is a very hasty and a wrong

conclusion. In fact, these industries have not only a very important but a vital role to play in the Indian economy particularly under the present conditions. In 1982, the small industrial units numbered 2·76 lakh, formed more than 80% of all registered factories. They provided employment to nearly 7 million persons or nearly 4% of the total number of persons employed in factories. They accounted for 18% of the total fixed capital and 35% of the total manufactured output. Even in the industrially developed countries like the U.S.A., U.K., West Germany and Japan these industries occupy an important position in their respective economies the extent of which is not fully realised. According to Fiscal Commission Report, (1949-50). "There are about 3,800,000 industrial establishments in U.S.A. with 1 to 4 workers. These make up 92·5 of U.S. business establishments, employ 45% countrys worker's and handle 34% its volume of business. In U.K. units employing between 5 to 30 persons accounted for 29% of the employment and 19% of the output. In Germany in 1925, 22% of the working population was employed in small establishments employing between 1 to 5 workers. In Japan 53% of the working population worked in establishments employing less than 5 workers." The conditions have not materially changed even now.

The case for the development of small-scale industries is particularly strong in poor countries like ours. These small-scale industries satisfy many of the investment criteria that are often perscribed for the planned development of the country.

(1) **Employment potential.** The cottage and small-scale industries are labour intensive, i.e., labour investment ratio in their case is quite high. A given amount of capital invested in large-scale industries is likely to give more employment, at least in the short-run than the same amount of capital invested in large-scale concerns. This is a very important matter for India where millions of people are either unemployed or under-employed. The handloom industry alone employs 10 mn. people or nearly as many as are employed in all organised industries, including large-scale industries, mines and plantations. So if a solution of the unemployment problem is desired, the small-scale industrial units have to assign a paramount role in the planned development of our country. Further, the encouragement of small-scale industry would serve to counteract the seasonal unemployment in agriculture and thus to utilise labour which might otherwise go to waste.

(2) **Capital Light.** Small-scale and cottage-industries are capital light i.e., they require relatively smaller amount of capital than that needed by large-scale industries, since the capital-output ratio is much smaller in the case of the former. Thus, one of the great advantages of small-scale industries is that they make possible economies in the use of capital. As capital is very scarce in an under-developed country like ours, it may be used to a greater advantage in the early stages of development.

(3) **Capital Formation.** Besides making possible economies in the use of the existing capital, small-scale industries may call into being capital that would not otherwise have come into existence. The spreading of industries over the country-side would encourage the habits of thrift and investment in the rural areas. Moreover, the enterprising small manufacturer has to scrape together capital where he can find it. He often manages to get it from relatives and friends. This capital probably would never have come into existence as productive capital, had it not been for the small enterprises.

(4) **Skill-light.** An important attraction of small-scale industries lies in their being skill-light. A large-scale industrial unit requires a great deal of management and supervising skills—foremen, engineers, accountants and so on. Like capital, these skills are also scarce in our country, and it is important to economise as much as possible in their use. Small scale industry provides a way of doing this and at the same time provides industrial experience and serves as a training ground for a large number of small-scale managers, at least some of whom may develop the capacity for managing large-scale industries.

(5) **Import-light.** Small-scale and cottage industries are import-light, i.e., they require a relatively low proportion of imported equipment and materials as compared with the total amount of capital used in them A low import intensity in the capital structure of the small-scale industries reduces the need for foreign capital or foreign exchange earnings and thus obviates balance of payments difficulty later and currently retains within the country a large part of whatever induced effects may materialise.

(6) **Even Distribution of Income and Wealth.** These industries have the additional advantage that with decentralised industries, they secure a more even distribution of income and wealth. The development of large-scale industries concentrates large incomes and wealth in a few hands, which is undesirable from the social point of view, in that they involve exploitation of man by man and also create vested-interests which put hurdles in the way of the economy marching towards its goal of socialistic pattern of society.

(7) **Regional Development.** Development of small-scale and cattage industries will bring about dispersion or decentralisation of industries and will thus promote the object of regional development. A major drawback in the industrial structure of our country is that the regional distribution of industries is uneven. On the one hand, there is a disproportionate growth of large-scale industries in a few areas, and on the other, a virtual absence of such industries in the greater part of our country. The development of small-scale industries will tend to correct this uneven distribution of industries in the country. Thus, small-scale industries will help in achieving a decentralised pattern of [illegible] industry broad- [illegible] offer maximum [illegible] ources but also make a democratic control of life possible.

(8) **Quick-Yielding.** Small-scale and cottage industries are of the 'quick-investment type' *i.e.*, those in which the time-lag between the execution of the investment project and the start of flow of consumable goods is short. In a developing economy with a high inflationary potential and need for a rapid rise in the living standards, the importance of such quick investment type industries can hardly be exaggerated. Small-scale industries have a high fruition-co-efficient, (*i.e.*, a high ratio between planned output and investment) and also a short fruition-lag.

(9) **Overcoming Territorial Immobility.** By carrying the job to the worker, small-scale industries can overcome the difficulties of territorial immobility. Moreover, unlike larger industries, small-scale industries do not create problems of slum-housing, health and sanitation etc , and the attendant diseases, misery and squalor.

(10) **Many Lines Favouring Small Industries.** With equal access to raw materials, there are many lines of industry in which the scale, flexibility, low capital costs, locational advantages, and other competitive factors favouring small units, assure them of a continuing and healthy role in Indian economic development. Provision of technical assistance is, however, an important aid to stimulate increased productive efficiency and encourage new product lines.

(11) **Integration of Small-scale Industries with Large-scale Industries.** Several cottage and small-scale industries are such as can be developed as subsidiary or complementary.

(*a*) The small-scale industries may take up the production of goods in the semi-finished stage and the large-scale industries may assemble them or make them into finished goods

(*b*) The cottage and small-scale industries may manufacture small parts, such as cycle parts.

(*c*) The third possibility is that the semi-finished goods may be produced on a large-scale but several types of finished goods may be made in small-scale establist [illegible] cultery from iron and steel, [illegible] utensils from sheets, metals [illegible] of small engineering workshops for repairs, servicing, etc. which are subsidiary to large-scale industries.

(12) **Wrong-Ideas.** It is urged that such industries are technologically in-efficient. But the growth-experience of Japan proves that they can be made compatible with technological efficiency. It is said that these units have a very high cost of production. But it must be kept in mind that social cost in such units is comparatively low. Moreover, the experience of Japan bears testimony to the fact that with the use of power and small machinery, the money cost can be lessened in cottage industries.

(13) **Foreign Exchange and Cultural Heritage.** Dr. M.S. Randhawa has correctly remarked, "Handicrafts products not only bring *foreign exchange* but are a mirror of our *cultural heritage.* Hence one

can now safely conclude that these industries form an integral part of Indian economy and constitute a continuing element in the industrialisation plan for India." "They are not to be viewed as a static part of the economy but rather as a progressive and effective decentralised sector which is closely related with agriculture on the one hand and with large scale industry on the other." (—Prof. S.C. Kuchhal)

(14) **Latent Resources and Talents.** Small-scale industries can be a good means of mobilising the savings and the skills of the people. If the saving and the skills of the people are not channelised into productive activities, they may be wasted. There are millions of Indians who have some capacity. They also have various skills or talents of inventing new products But most of these lie unutilised or latent and the country does not benefit from these resources. If the small industries are encouraged and assisted that the latent resources could be brought out into the open and the country can progress.

(15) **Decentralisation.** *The large-scale industries generally have* a number of disadvantages. On account of their location, they bring about over-congestion and the creation of slums in the nearby localities. Such urbanisation trends are harmful from the point of view of health. There are also a number of diseconomies due to the higher rents, wages, interest rates, etc. which are avoided in the case of small-scale industries. Generally, the small-scale industries are decentralised over the country. *It is for this reason that the official name of the small-scale industry is the 'decentralised sector.'*

and small industries for whose growth about Rs. 187 crore were spent during that Plan. The Third 5-year Plan earmarked Rs. 264 crore for the growth of village and small industries. According to the Mid-term Appraisal of the Third-Five-year Plan the total outlay during the first three years of the Plan period was about Rs. 125 crore. This came to about 47% of the total Third Plan provision of Rs. 264 crore. At the end of Third Plan Rs. 241 crore were spent on the development of village and small scale industries. During the Fourth Plan Rs. 293 crore were alloted for this purpose. The Fifth Plan provided Rs. 535 crores for these industries. The Sixth Plan is in fact but and out for these industries and in a big way. A small industry has now been defined in a broader manner. Any establishment having fixed capital of less than Rs. 5 lakhs falls into the category of a small unit and can avail of different types of assistance from the Government.

(1) **Progress in the First Plan.** Two important steps taken for the development of village and small industries during the First Plan period were : (*a*) the setting apart by the Central Government of substantial finance for the development of village and small industries ; and (*b*) the building up of a network of All India Boards to deal with the problems of the handloom industry, agriculture and the coir industries. Towards the end of the First Plan period four Regional Small Industries Service Institutes, with a number of branch units, were made for the purpose of providing technical services, advice and assistance to small business. The National Small Industries Co-operation, for marketing the products of small-scale industries, was also established during the First Plan.

(2) **Basic Policies during the Second Plan.** (*a*) The Indian Government during this Plan period wanted to implement as far as possible the basic recommendations of the *Karve Committee* regarding the avoidance of technological unemployment and attemped to provide as large a measure of enhanced employment as possible in traditional village industries. In cousse of the Second Plan, Small-Scale Industries Service Institutes were established in all States. In addition 42 Extension Centres were set up in association with the village and small industries in different parts of India. About 60 Industrial estates, comprising 700 small factories, were made in course of the Second Plan though 120 new industrial estates were sanctioned during that period.

(*b*) Industrial Policy Resolution of 1956, which served as the main tool for the implementation of the Second Plan's industrial programme, emphasised that the Govt. policy would ensure the village and small scale industries respectful sector acquired sufficient vitality to be self-supporting and that their development was co-ordinated with that of large industries. The extension of rural electrification and the availability of power at lower rates in future were expected to help towards the fulfilment of these objectives. In the meantime, the policy of protection to village and small-scale industries by means of restrictions on the volume of production in the large-scale sector and by differential taxation or by direct subsidies continued.

(c) The Planning Commission, at the time of the formation of the Second Plan, was of the opinion that net-work of well organised industrial co-operatives for supply and marketing would be necessary if a scheme of assured marketing, as envisaged by the Karve Committee, was to be experimented. It was hoped that the service co-operatives, which were being established all over the country, would greatly facilitate this task.

Progress in the Second Five-Year Plan. The total expenditure on village and small-scale industries during the Second Plan amounted to about Rs. 187 crore. Out of 120 sanctioned industrial estates 60 were completed in course of the Second Plan and the remaining 60 were expected to be completed during the Third Plan period. For providing technical and marketing advice to small industries, Small-scale Industries Service Institutes were made in all States and 42 Extension Centres were set up during the Second Plan. In course of the Second Plan *machines* valued at about Rs. 2 crore were supplied by the National Small Industries Corporation under the hire-purchase scheme which was introduced in 1956.

(3) **Basic Policies during the Third Plan.** Along with large industries, village and small industries were to be developed during the Third Plan period to give employment and to raise production of consumption goods and some categories of capital goods. A total provision of Rs. 264 crore had been made in the public sector for the programmes for village and small industries during the Third Plan as against about Rs 187 crore spent in the Second Plan. Additional funds were to be made available from other programmes—community development, rehabilitation of displaced persons, social welfare and welfare of backward classes. Investments in the private sector for village and small scale industries was estimated at about Rs. 275 crore. Three hundred new industrial estates were to be made during the Third Plan as against about 120 sanctioned during the Second Plan. Rural industrial estates were to be set up in selected rural areas, where power, raw material supply and other essential commodities were available.

Progress in the Third Five-year Plan. During the Third Plan, village and small industries in the public sector generated additional whole-time employment for about 6·3 lakh persons, and part-time and fuller employment for 8 lakh persons Similarly, output of cloth produced by the decentralised sector increased from 2,072 million metres in 1960 to 3,146 million metres in 1965. Besides this, increases in production ranging from 25 to 50% were recorded in several small-scale industries particularly foot-wear and other leather products, b[illegible] hand t[illegible] Cor- p[illegible] re by 1965-66. Another encouraging development was the increase in the value of exports of handicrafts, coir, handloom and silk products from Rs. 25 crore in 1960-61 to about Rs. 54 crore in 1965-66. There is no denying the fact that the Government has done much for the small-scale and cottage industries. From Rs. 42 crore in the First Plan, the

Government had raised the outlay on small industries to Rs. 241 crore in the Third Plan.

Fourth Plan. In the Fourth Plan the outlay proposed was Rs. 293 crore. By 1973-74 about 149,000 small-scale units were registered with the State Industries Directorates as compared with 36,900 units at the beginning of 1962.

Fifth Plan. The Fifth Plan provided Rs. 535 crores for their development. With the expenditure drawn from other sources like private investment, it had been estimated that the total outlay during the Fifth Plan had been as high as Rs. 1585 crores.

Sixth Plan. In this Plan, a key position has been earmarked for these industries from the angle of promoting such objective of the plan as the removal of unemployment, poverty and reduction in unequalities of incomes. This plan indicates the cottage and small scale industries as one of the form areas for emphasis, the other three, agriculture, area planning and provision of minimum needs.

"To [illegible]
part of [illegible]
potentiali[illegible]
under-emp[illegible]
planning and playing an important role in stabilizing the country's economy. But if they are to survive in a dynamic age, they must re-equip and adopt themselves to better techniques."

(*—Prof. Alak Ghosh*)

Q. 43. Account for the survival of cottage industries in India.

Ans. Causes of Survival. (*Pb. B. Com. 1982 Supp.*)

When large-scale industries have not been able to squeeze the small scale industries out of existence in the countries of advanced stages of industrialisation, it is not difficult to understand the survival of the cottage industries in our country. The causes that account for the survival of the cottage industries can be stated thus below :

(1) **Inertia and stay-at home habits of our cottage workers** have kept them moving in the old groove. This coupled with lack of alternative openings, has made the workers either unwilling or unable to leave their hereditary occupations.

(2) **Working in one's own home** assisted by the loving hands of the members of one's own family and working at one's own home will have got their own attractions.

(3) **Prevalence of the caste-system** is responsible for the perpetuation of the caste occupation, even though they have ceased to be paying.

(4) Agriculture, which is the occupation of about 69% of our people, affords at best only **seasonal employment** and there is forced idleness for 3 or 4 months in the year among farmers. "There are several supplementary industries which can be dovetailed with agriculture. They have, therefore, been continued as second string to the blow."

(5) There is still in India a large number of people who appreciate and are prepared to pay for a work of art. Their patronage has checked the decay of many an old Indian crafts.

(6) The isolation of the village has not yet been completely shattered and many village-crafts still live and prosper in places inaccessible to the machine-made goods.

(7) Some artisans have adopted themselves to the new altered conditions and have saved their crafts by taking advantages of new materials or tools. The weaver has taken to the mill-made yarn and the fly-shuttle.

(8) There are certain products the demand for which is local or too limited, and they, therefore, do not lead to machine production. They have to be produced by cottage industry.

(9) The capability of the cottage worker to introduce an element of variety to suit the tastes of different shades of customer has stood him in good stead and saved him from extinction.

(10) Modern trends of technological progress are favouring certain types of cottage and small-scale industries. Hence in recent years the relative position of cottage industries is being strengthened by technical developments.

(11) The Indian tastes in modern times appeared to have veered round to some extent, and hand-made goods are again in favour. Indian sentiment now favours and strengthens the "Be Indian, Buy Indian" campaign.

(12) The Central and State Governments, in modern times, have given liberal grants for fostering these industries. The Indian National Congress has the development of cottage industries its special concern.

In recent times, small-scale industry has been helped specially by some new favourable factors e.g., the development of electric power which can be supplied in small-units growing taste of the richer classes for artistic and luxury goods, the growth of the co-operative movement and wide diffusion of technical knowledge. We thus find successful small industries existing side by side with the large-scale industries. They can be complementary rather than competitive.

The new industrial policy statement earlier formulated (9th Dec., 1980) opted for these industries in a big way. The statement asserted that, "main thrust of the new industrial policy will be on effective promotion of cottage and small industries widely dispersed in rural areas and small towns....whatever can be produced by small and cottage industries must only be so produced."

"Now India is going to be a major producer of four major products —steel, cloth, jute-goods and sugar."

18

SOME MAJOR INDUSTRIES

Q. 44. Describe the growth and problems of Iron and Steel Industry in India.

(*Pbi, 1978 ; Kerala 1978 ; Bangalore 1976 ; Magadh 1976 ; Pb. B.A. (Hons.) 1980, Jammu 1981 ; Pb. B. Com. 1978*)

Or

Sketch the growth of the Iron and Steel Industry in India with particular reference to development under the 'Five-year Plans'

(*Jammu 1980 ; Karnatka 1977 ; Gujarat 1980 ; Srinagar 1981 ; Rajasthan 1975 ; Jiwaji 1978*)

Or

Describe the progress of the Iron and Steel Industry in India since Independence, with special reference to the role of the State in its development.

(*G.N.D.U. 1980, Pb. M.A. 1977 Kurukshetra 1981, M.D.U. 1979*)

Ans. Iron-smelting and forging was a flourishing industry in ancient India. There was an all India market for the goods produced by the Iron Industry. But with the emergence of the import trade and development of railways the indigenous industry declined and decayed.

The first attempt to make iron by making use of Western methods was made by Joshia Heath in 1830. He established an iron works at Porto Novo. But this attempt failed. The East India Iron Company took up these works and established some blast furnaces. But even these attempts were not successful and were given up in 1874.

Another attempt was made by the Barakar Iron works which in 1875, established iron works on the Jherriah coal-fields. But this too had to be given up in 1899. The Bengal Iron and Steel Company took over these works and at the start of the 20th century was making 35,000 tons of pig iron per year. In 1903 it tried to make steel. But because of the absence of any Government assistance and the low price of imported steel the effort was given up in the 1904 after having undergone heavy losses. The big iron making was a success. In 1919, it was re-organised as Bengal Iron Company.

Till recently steel was produced only by the Tata Iron and Steel Company, (TISCO). The founder of this company was Jameshedji Tata. A German expert's report on the iron resources in the Chanda district of C.P. attracted his attention. But the discouraging attitude of the Government and the strange rules regarding the grant of prospecting licence prevented him from doing anything in this respect. After some years he could cajole the then Secretary of State for India Lord Hamilton to take interest on the project. Having thus removed the discouraging attitude of the Government of India, at his own expense he brought American and European experts to undertake survey. The survey disclosed the Gurumaishini iron deposits near the Jherriah coal-fields. Unfortunately the great pioneer died in 1904. His sons carried on the work and the Tata Iron and Steel Company Limited was established in 1907. The works of the Company were started at Sakchi, a small village in Chotta Nagpur. Production of iron started in 19.1 and that of steel in 1913. To the Company the State enabled the acquisition of Land under the Land Acquisition Act; granted valuable mining concessions; undertook to purchase 20,000 tons of steel rails annually for a period of 10 years at a price not greater than the price of similar imported rails; granted a concession of 0·15 annas per mile on the railway freightage of all raw materials required by the works and finished products sent out for shipment to Calcutta; extended the railway line from Kalimati to Sakchi and constructed a line from Kalimati to the iron hills of Gurumaishini.

With sufficient finance, equipment, skilled management, State encouragement, and favourable market conditions the firm did well. During the first working period upto November, 1913 a profit of over 8·5 lakhs of rupees was earned. The Tata not only found an internal market but also external markets especially in Japan, Java, Ceylon, Burma, China, Australia and the South and West Africa. In 1914, the outlook was very bright.

The First Word War Period (1914-18). The first World War created very favourable conditions for the growth of the industry. Import of steel was difficult and the Indian companies tried to increase their output to the maximum. The pre-1914 average of India's imports of iron and steel was 808,000 tons valued at Rs. 12·48 crores. During the 1914-18 War the average imports declined to 422,000 tons valued at Rs. 10·11 crores. It was during this period that the Tata Company increased its output and supplied the Government with war materials. The Tata had a monoply. But because the Tatas had made long-term contracts with the Government of India for the supply of steel at comparatively cheap prices they could not get as high profits as earned by similar companies in U.K. By 1917, the original plant was in full production and the greater extensions were projected. The Company made fair profits upto 1920-21 and even in 1922 the prospects were promising.

The Post War-Period. Since 1922 depression started. Higher cost and lower prices resulted in steep fall in profits and finally losses

by 1923-24. The Company submitted a claim to the Tariff Board. The Tariff Board concluded that there was scope for cost reduction and that the Tatas could make steel at paying prices and ultimately stand on its own legs. They recommended protection for a period of three years. In accordance with the recommendations the Steel Industry (Protection) Act, 1924 was passed imposing protective duties of varying rates and kind on steel ingots and a large number of finished steel goods. The result was the imposition of duties averaging about $33\frac{1}{3}\%$ advalorum. Bounties were given on the production of steel rails, fish-plates, and railway wagons.

In 1924, due to a sudden appreciation of the rupee in terms of sterling, the prices of imported steel decreased drastically. The Tatas asked for an enhancement in protective duties and the Tariff Board recommended 100% increase in duties. But the Govt. thought it better to grant bounties in addition to existing duties. The bounty was given at the rate of Rs. 20 per ton of finished steel subject to a maximum of Rs. 50 lakhs payable upto Sept. 30, 1925. In 1925 the Tariff Board recommended that the bounty should be continued but suggested new rates. The Government did not accept the rates proposal but granted a bounty at the rate of Rs. 12 per ton subject to a maximum of Rs. 60 lakhs. In 1926, the Tariff Board reviewed the question and found that though protection had improved the position of the industry still it required protection and recommended an altered form of protection. These recommendations were accepted by the Government with minor alternations and the necessary legislation was passed imposing a scale of varying rates of lower duties on different classes of imported steel for a period of seven years. The bounties were abolished. The Tatas were to undertake further extensions to be completed in five years.

The industry largely enhanced output and efficiency and by 1934-1935 output reached record figures. Exports to U.K. increased particularly after the Ottawa Agreement. The Tatas in 1932 were able to supply 72% of the home requirements compared to 30 % in 1927-28. In 1934 the Tariff Board again recommended the continuation of protection and in consequence the *Iron and Steel Duties Act of 1934* was passed imposing duties at low rates. The improvement in the position of the Co., in spite of the lower protective duties can be inferred by the fact that the Tatas declared a dividend in 1936 since 1921.

The steady expansion of the industry under the stimulus of protec- [illegible] in the figures of production and imports. The produc- [illegible] tons at the beginning of century [illegible] 514,000 tons valued at Rs. 256 lakh was exported, Japan being the principal customer. Next to Japan, U.K. and U.S.A. were the substantial buyers of Indian pig iron. The [illegible] fully equal to that of continental [illegible]ere then almost negligible being [illegible] The production of steel advan- [illegible]9,565 tons in 1927-28 and that

of finished steel from 98,926 to 428,654 tons during the same period. The production of steel ingots was 977,000 tons and of finished steel 726,000 tons during 1938-39. The world-wide compaign of rearmament gave an impetus to the steel and iron iudustry and India took advantage of the world situation to consolidate her own industry.

The Second Word War. The war created boom conditions for the industry. Large orders were placed by the Govt. and the railways and there was a practical cessation of imports. The rapid expansion of Govt. ordinance factories in India also accelerated the expansion of Indian steel and engineering industries. This is indicated by figures during 1939, when output of pig iron totalled 1,835,000 tons compared with 1,575,000 tons in 1938. The manufacture of steel increased to 1,067,000 and 1,062,900 tons respectively showing a gain of 9·2% and 14 1% respectively over the previous year. Production in 1939 was double that in 1923-33. The steel output attained the peak level of 13,56,000 in 1941-42. Moreover, the range of output was greatly increased. But after 1943 and especially after the War, production fell. This was mainly due to labour troubles and transport bottlenecks. In 1947 producton was only 8,68,580 tons.

The Bengal Iron Company did well during the First World War. It produced ferro-manganese for export. Though during the post-War depression a part of the establishment had to be closed down, with the revival, the Company progressed and the yearly productive capacity was 200,000 tons.

Aftar the First World War, the *Indian Iron and Steel Company* was founded at Hirapur near Asansol. The Company concentrated only on production of pig iron. Production started in 1922 and the estimated capacity was 350,000 tons of pig iron per year.

Two other concerns, the *Bhadravati (Mysore) Iron Works* and the *Steel Corporation of Bengal* established by M/s Burn & Company, were started during the inter-War period. The former was started in 1923 and the latter in 1936.

Before Independence the important units of production in the industry were : (1) TISCO (Tata Iron and Steel Company) at Jamshedpur ; (2) The Steel Corporation of Bengal (SCOB) merged with the Indian Iron and Steel Company since the beginning of 1953 at Burnpur, Asansol, (3) The Mysore Iron and Steel Works at Bhadravati in Mysore and (4) The Steel Corporation of Bengal.

Development Under the Five-year Plans.

First Five-year Plan. The First Plan did not make any provision for a big project in the industry. It was only a preparatory plan and was mainly an agricultural Plan. During this Plan, Mysore Iron and Steel Works were expanded to provide for an additional output of 60,000 tons of finished steel. The Central Govt. also established a plant calculated to produce 3,50,000 tons of pig iron.

Second Five-Year Plan. The actual development of *Iron and steel* industry in India took place during the Second Plan Period, when 3 public sector steel plants were started at *Rourkela* in Orissa, (with Ger- [illegible]

otherwise the private sector units to increase their capacity. The Tatas increased its capacity from [illegible] lakh tons of finished steel to 15 lakh tons, Indian Iron and Steel Co. to 8 lakh tons of finished steel and Mysore Works to 85,000 tons. Thus the Second Plan period was the most eventful period in the development of iron and steel industry.

Third Five-Year Plan. The Third Plan programmed further expansion, *as well as diversification of the industry, from 60 lakh tons of* steel ingots to 92 lakh tons. For this the capacity of the existing 3 plants in the public sector was to be increased 100% and a new 10 lakh tons capacity plant to be established at *Bokaro* in Bihar in the public sector. In addilion, there was included in the Third Plan a project for pig iron plant based on low shaft blast furnance technique and the use of coke from the Neveli lignite. Another feature of the programme of the Third Plan was the production of 2 lakh tons of *alloy tools and special steel*; these are very high-priced products and will save a large foreign exchange. This whole expansion of steel production during the Third Plan was estimated to entail further huge capital investment of over Rs. 525 crores in the public sector. But at the rate of development attained during the Third Plan period, the steel target of 100 lakh tons was not achieved.

Thus during 15 years of planning, the output of finished steel increased from 10·4 lakh tons in 1950·51 to 13 0 lakh tonnes in 1955-56 to 23·9 lakh tons in 1960-61 and further to 44·3 lakh tons in 1964-65 or 61·4 lakh tons of steel ingots against 102 lakh tons of steel ingots for 1965-66.

Fourth Five-Year Plan. It was estimated that from a total target capacity of 89 lakh tons in the Third Plan period, the existing steel works might be expanded to a total capacity of 135 lakh tons in the Fourth Plan period. The Fourth Steel Plant (i.e., Bokaro Plant) was constructed with the assistance of the U.S.S.R. with a capacity of 15 to 20 lakh tons with provision for the future expansion up to 40 lakh tons. *In 1973-74* India produced 5·76 mm. tons of steel ingots and 4·47 mm. tons of finished steel.

Fifth Five-Year Plan. It was estimated that during the Plan, the development programme for steel of 88 lakh tonnes of finished steel from the integrated steel plants including 1·06 mn. tonnes from the mini steel plants would be ensured. In 1978-79 the output of pig iron, steel ingots and finished steel was 10·68, 8·42 and 7·49 mn. tonnes respectively.

From the above discussion about the *growth of the iron and steel* industry, two inferences are clear (*i*) The development over about 70

years of the present century is by no means spectacular. (*ii*) The pace of its growth has quickened with the entry of the government in the last few years.

Present Position of the Industry.

The present standing of the industry is to an extent not unsatisfactory. According to the latest available statistics, the total number of reporting factories was 815 in 1981 with productive capital of Rs. 1640 crores. The number of persons employed was 356 thousands. The ex-factory value of gross output was Rs. 880 crores and the value added by manufacture (which is a measure of its contribution to national income) Rs. 292 crores.

Reduced Dependence. An important aspect of the growth of iron and steel industry is that for the establishment of new plants, we are no longer much dependent upon foreigners. This process of self-reliance began with the Bokaro plant. For the establishment of this plant, local sources have contributed quite a lot towards the supply of equipment and spares. Even in the preparation of design and its construction, Indian experts have helped to a great extent. It has been estimated that in repect of the Bokaro plant 90% of building material, 100% of industrial goods, 65% of manufactured implements, 48% of electrical goods and about 80% of investment resources came from the home front.

Exports. Another notable feature of iron and steel industry is that it has begun exporting its products. In 1950-51 the export of iron and steel was of the small value of Rs. 2·87 crores. From 1960-61 onwards exports increased at a fast rate, reaching Rs. 90.6 crores in 1970-71. Thereafter due to various reasons, including increasing domestic demand, they declined but picked up again to stand at Rs. 205 crores in 1981-82. Of course, this e[illegible] constituting about 5% of the total [illegible] ficance lies in the fact that the country has grown to a position of exporting it to such developed countries of Japan, the U.K, the USSR, Yugoslavia, etc. Besides, India has now started exporting many manufactured products based on steel.

Comparison. Although the industry has grown rapidly during the plan-period, yet its present position, when studied in the world context and in comparison with some other countries, is not satisfactory. Of the total world production of crude steel of 686·8 million tonnes in 1982, India's share was as little as 1·2%. As against this, the production in the USSR came to be 20·0% of world production, followed by the USA with 19·3%. Contributions of other countries in percentage terms are as follows: Japan 15.5, West Germany 7·0, UK 4.0 and France 3.8.

Future aims. Even if we look at the domestic demand for [illegible] umption, and the need to meet the not "overambitious" [illegible] producing 75 million tonnes by 2000 A.D. (set by the [illegible]

White Paper presented to the Parliament on 26th May, 1976), we shall find our productive capacity at present very low and the leeway to be made up very large. To achieve the target of 50 million tonnes by 1993-94, according to the White Paper, will require an investment of Rs. 31,845 crores.

Besides this long-term production programme, there is also the immediate need of meeting the domestic and export requirements. The total domestic demand for finished steel alone was 78 lakh tonnes in 1978-79. While this applies to the Fifth Plan, the increased demand position in the Sixth Plan, as the White Paper emphasises, will have to be met by still further expansion of Bokaro plants and by completing on time the setting up of the two new steel plants at Visakhapatnam and Vijayanagar.

Imports. It is equally necessary that we cut down our imports to the minimum necessary. Unless we expand our production quickly, we will have to import iron and steel to meet the rising domestic demand. Already, we are importing this vital basic commodity and paying heavily for it.

Problems

In the context of the large future demands, there is obviously the need for adding to the existing capacity. But no less important is the problem of ensuring that the huge investments already made are fully and efficiency used. There is again the necessity of changing the production structure to accord with the new priorities in the Sixth Plan.

(1) **Capacity Creation.** The creation of new capacity, is not so simple. Nor is it a mere technical problem. For this we need not only imports but also demand for its use. The situation in respect of both of these is not satisfactory. While we have sufficient reserves of iron-ore, we have very limited reserves of coking coal. It is estimated that this high-grade coal might last for 45 years at the present rate of steel production and for 22 years if the steel production is doubled. This necessitates action along three lines (i) conservation of this type of coal and reduction of its use in industries where other alternatives are available ; (ii) adoption of process which use low grade coal in the manufacture of pig iron ; and (iii) import of coking coal, although this would involve higher costs. Infact the technical side of the problem will have to concern not merely with the expansion of the capacity, but equally with the technological improvements. Besides, for the expansion of steel capacity we have to overcome the market constraint which is being experienced these days. This limitation has arisen from three sources ; (i) fall in investments in recent years ; (ii) the scope for expansion of demand on a very large scale is severly limited with a major section of population below the poverty line ; and (iii) the falling international market following the oil crisis. The solution to the much-desired increase in steel-capacity thus lies not only in

adopting measures for adding to the existing capacity, but in pursuing other policies in respect of investments in other sectors, inducements to demand for goods with steel as inputs, encouragement to export-promotion till atleast we are able to build up enough domestic demand etc.

(2) **Capacity Utilisation.** Another problem is about the fuller utilisation of the existing capacity of the steel plants. While the capacity utilisation ratio is very high in the private sector, at about 103% in saleable steel from TISCO in 1981-82 it is not that good in the public sector plants. The overall capacity utilisation in public sector plants, other than TISCO was 92·4% in 1981-82 which was sufficiently high in terms of world standards. But if this could be improved to 100% it would make a lot of difference to the availability of steel at home, and at cheaper rates. In case of IISCO (taken over by the Government in 1976) the capacity utilization was, however, much less at 67·8% in 1981-82. The performance of mini-steel plants was worse still. Out of the 136 operative electric furnace units in 1981-82, only 89 units with a capacity of 21·8 lakh tonnes were operating and 23 units with a capacity of 5.51 lakh tonnes were closed. With production at 12.6 lakh tonnes in 1981-82, the capacity utilisation came to be as low as a little more than half.

(3) **Product-mix and Waste-material.** Apart from the above problem there is the need to re-orient the product-mix of the industry and to use the waste-material, namely slag. In view of the change in the direction of the economy envisaged in the Sixth Plan, the production of this industry will have to be increasingly consumer-oriented, besides providing material for rural infrastructure and basic capital goods for small industries. The use of waste-material which can provide 50% of the raw material for cement will further add to the production of the much needed cement in the country. An important advantage of the use of slag will be the reduction in the cost of steel and therefore improvement in its efficiency.

(4) **The Problem of Steel Price.** The price of imported steel is higher than locally produced steel (but steel has to be imported because local production is inadequate to meet local demand). The Government follows a special price policy with regard to steel.

The Government of India fixes a price at which the two leading-producers of steel *viz.*, TISCO and IISCO have to sell their outputs. The price, known as the *retention price*, is lower than the price which consumers pay. The difference between the selling price to the consumers and the retention prices goes to the Equilisation Fund which is used to subside imports of steel and to finance the programmes of modernisation and renovation of steel plants.

Though there has been a continuous rise in retention prices, the steel producers have been objecting to the whole system on the following grounds :—

(i) The fixing of *retention prices* is unrealistic.

(*ii*) The rise in profits as a result of rise in *retention prices* cannot be used for any other purpose except for development and expansion of the units.

(*iii*) The Equalisation Fund belongs to the steel producers. So, there is no sense in the Government lending to the steel producers out of the Fund and charging interest.

It may be noted here that there has always been differences between the Government and the industry on the fixation of *retention prices of steel*.

Q. 45. Give a brief history of the growth of the cotton textile Industry in India. What problems are being faced by the Industry at present ?

(*Pb. 1980 ; Osmania 1977 ; Jammu 1980 ; Kurukshetra 1981 ; Vikram 1979 ; Rajasthan 1981 ; Tirupati 1978 ; Karnatak 1981 ; Srinagar 1979 ; Himachal 1981 ; Allahabad 1978 ; Pbi. B. Com. 1981 ; Pb. B. Com. 1982, 1980 ; Delhi 1979 ; Jiwaji 1978*)

Or

Consider the present position and future prospects of the cotton textile industry in India. What are its main problems ?

(*Kurukshetra 1969*)

Ans. Endeavours at starting cotton mills in India before the railway era were a failure and though a cotton mill was set up in Calcutta in 1835, it was only with the setting up in 1853 of a cotton mill in Bombay by C.N. Davar that it may be said that the real foundation of the Cotton Mill Industry was laid down.

The Period 1860-75

By about 1861 there were eight mills operating in Bombay. But the period 1860-75 was unfavourable to the growth of the industry mainly due to the high price of raw cotton brought about by the American Civil War and the trade crisis of the period due to the reckless floating of companies which resulted in the collapse of all credit. The result was that there were only eighteen mills in Bombay and two in Bengal in 1872-73.

The Period 1875-1895.

This period saw rapid growth of the industry. The period also witnessed the spread of the industry to the interior. In 1887, J.N. Tata founded the Express Mill at Nagpur. Morarji Goculdas set-up a mill at Sholapur. Mills were also set-up at Madras, Madura, Coimbatore etc. The greatest expansion took place during (1885-1890) when 50 more mills were added. There was a healthy expansion upto 1887.

The increae in exports of cotton piece-goods from India alarmed Lancashire indsutrialists who started an agitation which led to the

abolition in 1882 of the cotton import duties in India. But inspite of it the industry made a progress.

In the beginning the Indian cotton industry was mainly a spinning industry. The Indian spinning industry killed the domestic hand-spinning industry and exported large quantities of twist and yarn to Japan and China.

The Decade 1895 to 1905. The decade 1895-1905 was one of depression for this industry. The terrible famines of this period adversely affected the internal demand for cotton yarn and cloth. The plague of 1896 drove the workers to the villages thus caused a labour shortage. The draught of 1900 reduced the raw cotton supplies, combined with the American cotton boom it pushed the raw cotton prices to very high levels and the depression in China was the most important of India's foreign markets for yarn. But in spite of these adverse circumstances the industry progressed and by 1905 there were 206 mills.

The Period 1905-1914. The period was one of prosperity for the industry and during 1905-07 it enjoyed unexampled prosperity. The boom was most pronounced in spinning and yarn output enhanced largely. But 1914 there were 264 mills and India was regarded as the fourth greatest cotton manufacturing country of the whole world. The most important tendencies of the period were predominance of weaving over spinning and the production of finer products.

The First World War (1914-1918). The War period as well as the immediate post-War period was was one of great prosperity for the industry. This was due to decline in imports, increase in demand due to War orders and the increase of demand in foreign markets. Production increased 50% though few mills were established during this period because of the difficulty of getting machinery and equipment. The mills earned huge profits and dividends as high as 40% were given by the mills. However, because of the greater demand for yarn in the Indian markets, difficulty of exports, and keener competition from Japan and China the export of yarn fell. One of the important features of this period was the increase in the production of woven products. Now greater attention was given to piece-good than to twist yarn. The other features were the increase in the production of better class of products and coloured products.

Inter-War Period. Since 1922 depression set in the industry. The depression was most pronounced in regard to the Bombay City mills whose profits steadily declined. By 1925 the Bombay mills underwent a loss of Rs. 134 lakhs.

The diff[illegible] s industry during the period were [illegible]orts, especially Japanese imports, [illegible] the Indian goods, the decline in [illegible] particulary yarn exports which was a heavy blow to the Bombay mills, the stabilisation of the rupee at 1 sh. 6 d. which enabled imports to be sold at lower prices in India and the general depression.

The Bombay Mill Owners' Association became anxious about the prospects of the industry. In 1924 there was a strike for 2 months, caused by suspension of bonus payments started during the War. In 1925 the Mill-owners declared their intention of imposing a wage-cut of 11% and demanded the abolition of cotton excise duties and protection against Japanese competition. Eventually the wage-cut was withdrawn and the Government stopped the cotton excise duties. The Bombay Mill Owners' Association demanded a Tariff Board enquiry. Consequently a Tariff Board was appointed which recommended the establishment of a bleaching, dyeing and printing factory with Government help ; *a bounty on the yarn production of and above 32 counts ;* increasing the rate of import duty from 11% to 15% and the reduction of import duties on cotton textile machinery and certain mill stores.

Unfortunately the Government rejected the proposals regarding the grant of bounty and the increase of duties on this point that a long started industry such as the cotton industry might not require the stimulus of bounties or protective duties. Regarding the establishment of the bleaching, dyeing and printing factory, the Goverment agreed to enquire into the possibility of such a measure and accepted the proposal to remit the import duties on textile machinery and certain mill stores. The Mill-Owners' Association, aggrieved at the State decision sent a deputation to the Viceroy in July, 1927 to ask for a greater assistance. The depression in the industry continuing to be severe the Government changed its original decision and in 1927 passed a Bill imposing a duty of 5% *ad valorem* on imported yarn. But this measure of protection did not benefit the industry because of the long and serious strike in the *Bombay Cotton Mills which prevented any revival before the onset of* the Great Depression of the 'thirties'.

As the *Depression* became more serious the Government was forced to give protection to the cotton industry and in 1930 cotton piece goods was transferred to the protective schedule. In 1931 the import duties *were increased and the principle of differential duties on English and* non-English goods was introduced. In 1932 the Tarriff Board conducted an inquiry and on its recommendation the import duty on non-British goods was increased to 50%. The Japanese competition continuing to be severe, the duties on non-English products were further increased to 75% in 1933. Finally, the Japanese competition was regulated by the Indo-Japanese Trade Agreement of 1934 by which Japan was given a yearly quota. Another Tariff Board was appointed and on its recommendation the Textile Protection Act of 1936 was passed By 1934-35 the production of cotton piece-goods reached record figures and Indian mills were able to supply 78% of the home demand. There were 407 mills employing nearly 4 lakhs workmen.

The Second World War. On the eve of Second World War, the cotton industry was in a stagnant condition owing to the reduction of home demand caused by the depression of 1929-33 and the recession of 1937-38. Other adverse factors were the re-entry of Japan into the

Indian market at increased cost of production and heavy taxation in the form of the 10% property tax in Bombay and Ahmedabad and the doubling of import duty on raw cotton in 1939. The second year of the War, however, ushered in an era of steady improvement. Hence the Second World War helped the industry to improve its financial position. When Japan entered the War, imports from Japan stopped. Imports from U.K. also fell. The demand for Indian goods from Ceylon, Australia and the Middle East went up considerably. Huge war orders were placed with the industry. All these factors led to growth of the industry. But the cost of production also increased owing to higher labour cost and higher taxation. The difficulty of importing machinery prevented the growth of the industry and there was overworking and excessive depreciation of plant and machinery.

Towards the close of the War, plans were prepared for post-War development and an expansion of the indu stry by establishing more than 100 cotton mills.

Partition. Partition of the country was another serious blow which made the supply position of raw cotton very difficult. In 1947 protection was withdrawn. Still the industry continued to develop.

Industry's Growth Under the 5-year Plans. Since 1951, the industry has shown remarkable recovery and expansion, production of cloth rising continuously from 3,400 mn. metres in 1950-51 to 4665 mn. metres in 1955-56, an all-time record and greatly in excess of the First Plan's target. There has been a steady rise in yarn out-put. Favourable factors at work had been, the greater availability of raw cotton, removal of cloth controls, and the measures adopted by the Government for the exports encouragement.

The condition of industry deteriorated duriog the Second Plan owing to competition from Japan, China and Pakistan, high cost of production and diminished demand due to low purchasing power of the [illegible] The supply exceeded [illegible] Hence stocks accumu- [illegible] was 5,150 mn. yards against a target of 5,800 mn. yards.

The industry, however, did better in the first 4 years of the Third Plan, though 1955-56 was again a very bad year.

Over the period of 3 Plans, output of cotton yarn enhanced from 534 mn. kgs. in 1950-51 to 907 mn. kgs in 1965-66. The production of cloth during the same period rose from 4,215 mn. metres to 7,440 mn. metres. In 1971-72, the output of cloth was 7,760 mn. metres. In 1973-74 it was 7,800 mn. metres and 8,800 mn. metres in 1981-82.

The cotton textile industry is the large exports of mill-made cloth and to some extent of handloom cloth which have netted for the country

a sizable amount of foreign exchange over the years. The following table gives information about the quantity and value of exports of cotton fabrics since 1950-51.

(*Rs. crores*)

	1950-51		*1960-61*		*1970-71*		*1978-79*		*1981-82*	
	Qty.	*Value*	*Qty.*	*Value*	*Qty.*	*Value*	*Qty*	*Value*	*Qty.*	*Value*
Cotton Fabrics	—	118	—	90·6	—	75·3	—	161·2	—	270.6
(*i*) Mill-made (million metres)	—	107	602	83·1	415	67·5	415	121·6	562	220·8
(*ii*) Handloom (million metres)	—	11	26	7·5	28	7·8	60	41·6	78	58·2

Present Position.

At present there are in the cotton textile industry 674 units. The [illegible] worth about Rs. 125 crores [illegible] 45 crores as taxes. It provides [illegible] Total capital invested in the industry is Rs. 280 crores.

Chief Features.

The chief features of the cotton textile industry may be summarised as under :—

1. the existence of different sectors, e.g., mills, powerlooms and handlooms one competing with the other ;

2. diversified production, e.g., coarse, medium, fine and superfine qualities ;

3. existence of old techniques and modern techniques side by side ;

4. decentralisation spreading out of Bombay and Ahmedabad which together still account for country's 50% spindlage and loomage ;

5. exietence of a large number of uneconomic units ;

6. existence of controls, and

7. shortage of good quality of raw materials.

Main Problems of the Industry.

(1) Replacement of Plant and Machinery. The first problem is [illegible] More than 3/4 of the [illegible] 25 years old and mostly worn out. This has reduced the productivity of the industry and thus raised the production costs. But the industry lacks adequate reserves to finance such replacements. Therefore, the Government should assist the industry by loans at lower rate of interest to assist in such replacements.

(2) Rationalisation and Modernisation. Closely connected with first problem is that of *rationalisation and modernisation*. The present machinery is not only old and worn out, but also obsolete in design and outdated. It requires to be replaced by modern equipment such as installation of automatic looms. But the difficulty is that of unemployment being caused thereby and, therefore, that of serious opposition to it by organised labour.

(3) Cost Inflation. Recently there has been a rapid increase in cloth prices. Mill-owners contended that the increase in the cloth prices has been caused by cost inflation, and that *cost-inflation* has emerged owing to an appreciable rise in raw cotton prices, increased incidence of wages and dearness allowance and an upward trend in the prices of stores and chemicals. But the general view is that the rise in cotton textile prices is out all proportion to the rise in costs.

(4) *Foreign Competition*. Another problem is connected with [illegible] ition in foreign markets from Japan, [illegible] etitive power of the Indian cotton [illegible] of production. Unless the quality of our textiles is bettered and they are offered at reasonable prices, it would not be easy to compete with these rivals.

(5) Supply of Power. Another problem is regarding the *supply of power*. It is inadequate and irregular. The shortage of coal has badly affected the progress of the industry in the western section.

(6) Raw-material. The mills generally experience difficulty in securing *regular supplies of cotton at reasonable rates*. The quality of Indian cotton is poor, being short stapled and the supply is insufficient.

(7) Restrictions. Statutory controls have been levied in respect of production, prices and quality. The various types of *restrictions* which the Government have put on the expansion of the cotton textile industry are not only irksome to the industry, but a factor in keeping down production. The object of the Government in imposing such restrictions is to promote production in the handloom and small-scale sectory of the industry.

(8) Existence of Inefficient and Uneconomic units. The existence of 130 [illegible] yet another problem. [illegible] working at marginal [illegible] industry is desired, Government must do something for the economic operation of these units.

(9) Imbalance. There is a certain amount of *imbalance in the distribution of the textile industry between north and south India*. To remove this imbalance the Union Government has decided now to allow five South Indian firms to set up textile units with a total capacity of 50,000 spindles for the manufacture of cotton yarn.

(10) Defective Management. The industry has suffered from incompetent, and selfish magaging agents and ignorant directors. The

managing agents were never careful to build up reserves in periods of high profits, and wasted the profits by declaring high dividends. They never made any effort for research or improvement of quality or proper maintenance and replacement of machinery. They made defective and highly insecure financial arrangements which proved dangerous to the mills they managed.

(11) **Absence of Co-operation and Co-ordination.** The cotton textile industry has been organised on an individualistic basis. Each textile unit makes its own arrangements regarding purchase of cotton, machinery and mill stores, and for the sale of its products within the country and for exports to other countries in the world. No attempts were made by the cotton-mills to co-operate in any aspect of production.

Conclusion. In conclusion one needs to remind oneself that cotton textiles are important next only to food. It has, therefore, to be organised, expanded and modernised that every Indian gets atleast the minimum clothing.

Q. 46. Trace briefly the rise and progress of the Jute Mill Industry in India and point out the difficulties it had to face from time to time.

(Karnatak 1978 ; Kurukshetra B. Com. 1982 ; Gujrat 1981 ; Osmania B. Com. 1979 ; Jiwaji 1978 ; Meerut 1979 ; Bom. 1980 ; Chartered Accountancy 1976 ; Mad. 1980 ; Raj. 1980)

Ans. Till 1830, the manufacture of gunny bags and jute cloth was the monoply of the Bengal handloom weavers. The gunny bag trade increased with the growth in the demand for packing material consequent on the growth of trade. An export trade in woven jute products developed after 1795 and became large enough by 1829-30. But the growth of the jute manufacturing industry at Dundee after 1830 effectively killed the Bengal handloom industry and India started exporting raw jute to Dundee. During the Crimean War, Dundee was not able to get flax and hemp from Russia and this led to a tremendous increase in the demand for Indian jute. During this period great improvements were introduced in India in the cultivation and preparation of jute and this assisted the permanent substitution of India jute for the Russian material.

Beginning of the Indian Jute Industry.

The opening of the Raniganj coal-fields and the consequent new fuel possibilities led to the idea of start of manufacturing jute by machinery in Bengal. The first jute machine-spinning mill was established at Rishra in Bengal in 1855 by George Aucland. In 1857, weaving was started. However, Aucland could not get very good success. The second mill was started both for spinning and power weaving in 1859 at Barnaglore. The industry made good progress In 1862, two more mills were set up. In 1866, still another mill was established. From 1863-73 all the mills except the Rishra mills made huge profits and the number of looms enchanced to 1250. At the beginning, the gunny

cloth produced was inferior in quality and served only a local market. The large profits made by the jute mills tempted investors to invest in jute rather than in coal and tea and in the early 1870's there was a great jute boom. New companies were quickly formed. Exports of manufactured jute enhanced quickly and by 1850 there were 22 mills. The quick growth of the industry led to over-production and during the 1880's the industry faced comparative depression. The depression led to the formation of Jute Mills' Association in 1886 to regulate output.

By about 1896 the industry began to undergo a prosperous period. At this time, the Calcutta jute goods began seriously to compete with those of Dundee. The great advantage Bengal had over Dundee was in production of coarse goods. This was due to the abundance of raw-material and cheap labour. The exports of jute manufacture increased both absolutely and relatively to that of raw jute. This gave an alarm to Dundee and there was the out-cry in Dundee demanding factory legislation in India.

Progress during 1900-1914.

During the period 1895 to 1900, the growth of the industry was not very rapid, owing to the famines which by stopping the export of food, and other raw agricultural goods reduced the demand for gunny bags, the industry made a very rapid progress since 1900 and by 1908 the output of Indian mills surpassed that of Dundee. Upto 1914 the industry progressed exceedingly and by 1914 there were 64 mills employing more than 2 lakh workmen.

The First World War and the Immediate Post-War Period.

The outbreak of the War coincided with a bumper jute crop and there was the fear that prices may come down. There was a temporary trade dislocation owing to the War. But the War period gave strong stimulus to the jute industry on account of the large demand for sand bags and cloth for army. During the War India began to produce jute canvas and the jute industry worked to Govt. orders. To enhance production the Government suspended the operation of certain sections of the Factory Act in case of this industry. An export duty was levied in 1916 and increased in 1917, but this did not adversely affect the industry because of the monopolistic position of the Indian Jute industry. The jute mills made huge profits, 58% in 1915; 75% in 1916; 49% in 1917 and 73% for the first half of 1918. Huge reserves and depreciation funds were built up too.

The boom continued after the War for some time but as in all other industries depression set in after the immediate Post-War period.

Post-War Depression.

The jute mill industry by no means escaped from the effect of Great Depression. The jute industry suffered from declining prices, presence of heavy stocks at the principal consuming centres, frequent labour troubles, etc. But on the whole it faced the defficulties of the depression much better than the Bombay cotton mill industry. It was

thus rewarded for its care in maintaining adequate reserves and its systematic adoption of short time when necessary.

Post-war Depression was caused by the following factors :—

(1) Contraction of demand as a result of stoppage of War orders. (2) Prices of raw jute and wages began to increase fast which raised production costs. (3) The high level of War-profits led to the floatation of new companies and large extension schemes by existing companies. (4) There was an acute shortage of coal which led to many mills' closure periodically during 1919 and 1920. (5) There was depression in trade and industry all over the world which led to a decline in demand for jute products.

The Depression since 1929 led to the appointment in 1932 of the Jute Enquiry Committee. In 1934, it recommended better control of cultivation, improved marketing and the establishment of a Central Jute Commission. The Central Jute Commission was set up. The Government of Bengal decided a plan of crop restrictions. Official proposals were put forward for research and the development of market and Bengal was assisted by the transference in 1935 of 50% of the revenue derived from the jute export duty to the provincial government and the continued under the 1935 Constitution.

T[illegible] particularly because of the unhealthy [illegible] not members of the Indian Jute [illegible]gal Government to interfere. An [illegible] which prohibited all Jute Mills in [illegible]n 45 hours a week.

Second World War.

The outbreak of World War II brought a feverish overseas demand [illegible] industry out of acute [illegible]ply from 907,000 tons in [illegible]pment of manufactures [illegible] totalled to 98,725 tons [illegible] There was a great in[illegible] Restrictions on work[illegible]nto full production at [illegible]

[illegible]arkets and the shipping [illegible] manufactures and the [illegible]45 a week and further to [illegible] From 1941 there was [illegible] English and American [illegible]sed from Feb. 1942 to March, 1943 due to Japanese occupation of Burma and the fear of Japanese air attack on Bengal. Since 1943, the industry revived there was once again prosperity. The Partition of India severely affected the milly industry as 75% of the Jute growing area went to Pakistan.

Before Planning (Partition)

Partition dealt a great blow to the industry. As most of the raw jute came from East Bengal and all the factories were in the West Bengal, the supply position of raw jute became very acute. Vigorous efforts have been made to make the country self-sufficient in jute and thus to make the industry independent of imports from Pakistan.

Since Planning (1951)

The story of the jute industry in recent years is that of determined efforts for survival.

During the *First 5-year Plan* attention was concentrated on the utilisation of the existing capacity more fully since there was a lot of excess capacity in the mills. The supply of jute was precarious. The *Second 5-year Plan*, too, did not envisage any expansion of installed capacity. The output varied from year to year depending on the supply of the raw material jute. The *Third 5-year Plan* also did not propose any expansion programme and the target of production was to be achieved with fuller working of the existing capacity and by ensuring more adequate supply of the raw material.

The production of the jute textiles increased from 8·37 lakh tons in 1950-51 to 10·71 lakh tons in 1955-56 and was the same in 1960-61 but increased to 12·92 lakh tons in 1964-65. In 1966, industry hit the target of the Third 5-year Plan of 13 lakh tons inspite of heavy odds regarding the supply of raw materials. In 1966-67, the output fell to 12 lakh tons and fell further to 10·65 lakh tons in 1967-68. In 1971-72 India produced 11 lakh tons jute manufactures. In 1971-72 India earned Rs. 190·44 crores from exports of jute manufactures. The target for the Fourth 5-year Plan was fixed at 14 lakh tons. But actual production in 1973-74 came to be 9·70 lakh tons. The target for the 5th Plan was fixed at 15 lakh tons. Actually the production in 1978-79 was estimated to be 12·48 lakh tons. In 1981-82 exports of jute manufactures continued to occupy an important place with earning of Rs. 245 crores. In 1981-82 its production amounted to 14·10 lakh tons.

Present Position.

The Indian jute industry is passing through a deep crises. It is basically due to the fact that Indian jute products have been unable to compete in world markets against synthetic substitutes and Government-aided Pakistani jute goods. The uncompetitive position of the industry is due to, (a) shortage of raw jute and consequent high prices, and (b) heavy burden of export duty on finished jute goods. The market for its product is sluggish, costs are rising and labour is hostile. The prices of jute goods have fallen much faster than the fall in the prices of the raw jute because of insufficient overseas demand and poor domestic off take.

Realising the acuteness of the situation, the Government appointed in January, 1969 a working group to study the problems of the industry and suggest a solution. In the meantime the Government arranged from the Industrial Finance Corporation an advance of Rs. 5 crores to assist modernisation of the industry.

Chief Features.

The chief features of the jute industry may be summarised as under :

(1) Highly centralised.
(2) Precarious supply of raw materials.
(3) Dependence on international market.
(4) Existence of managing agency firms.
(5) At one time dominated by foreign capital and enterprise.
(6) Absence of controls on production and distribution.
(7) Production and exports stagnant till recently.
(8) Substantial contribution to foreign exchange earnings.

At present there are in India 112 jute mills. Total capital investment is Rs. 92·31 crores. The industry is employing 3·5 lakh total workers. Most of the mills are concentrated mostly on the Hooghly in Calcutta.

Major Problems of the Jute Industry.

Among the major problems which the industry has had to solve are :—

(1) **Problem of Raw Materials.** The jute industry faced acute shortage of raw materials as 73% of raw jute producing areas were left with Bangladesh. From 1950 onwards, a major objective of the Government in agricultural production was to achieve self-sufficiency in raw jute. Accordingly, there was a vigorous drive for extension of jute growing areas. Against the First Plan target of 5·1 million bales in 1955-56, the actual production was 4·2 million bales. The Second Plan target was 5·5 million bales. The production in 1958-59 was 5·2 million bales and India became almost self-sufficient in raw material. In there next two years there was a decline because of adverse natural conditions But the supply position of raw jute has considerably eased since then. However the domestic production of raw jute is characterised by extreme instability and very low yields.

(2) **Competition from Substitutes.** India's monopoly of jute manufactures is threatened both by other countries as well as by the rise of substitutes. A number of countries like Philippines, Japan, Brazil, Africa and Bangladesh have started building up the jute mill industry The use of paper and cloth bags, sisal hemp in Philippines, etc., have become important substitutes of jute. Besides, countries like the U.S.A. have started using "bulk handling" of wheat and other agricultural products thus eliminating the need for gunny bags. To study the problem of substitutes the Indian Jute Mills' Association sent a mission to U.S.A. The Mission recommended the slashing down of export prices of jute manufactures by 25%. This recommendation could not, however, be implemented. Instead, a Publicity Bureau has been set up in New York in order to popularise and boost the sale of jute products there.

(3) **Problem of High Prices.** One of the basic causes for growth of substitutes for jute manufactures is the high price. Many reasons can be given to explain the high prices of jute products :—

(*i*) Indian mills are using mostly obsolete or out-of-date machinery.

(*ii*) Many of the mills are inefficient and uneconomic units.

(*iii*) Because of the difficult supply position within the country, the price of raw jute has been quite high. Speculators generally exploit the raw-material shortage situation and force the prices up to very high levels.

(*iv*) The Government imposed export duties and thus was responsible for rising prices. It is now realised that unless the prices are reduced considerably, Indian jute industry will be easily outcompeted by others.

(4) **Modernisation of Plant and Equipment.** Like cotton textile industry, the jute industry too has not been able to replace worn-out machinery. Besides, most mills have been working with old machinery. The Industry does not possess adequate financial resources of modernisation of plant and equipment. Some of the leading units met the cost of their modernisation programmes from their own resources and also by raising loans from the market. But many of them borrowed from the National Industrial Development Corporation.

(5) **Fluctuating Production.** The production of jute goods over the years has been fluctuating with production in 1976-77 less than on some years before. Among the important causes are inadequate and irregular supplies of raw-materials, lack of incentives, etc. But even when ade[illegible]ves production [illegible]ng 1974-75, ou[illegible] Again in 19[illegible] 6·6% from 1972—73. Additional reasons for this state of affairs are shortage of power and slackness in export demand.

Solutions. In order that the jute industry continues to stay and expand its contribution to national income and foreign exchange earnings, it is necessary that correct solutions are applied. In this connection a few suggestions can be made :—

(1) The foremost one is that the machines and equipment of the mills still using old machines be changed. In fact, what is required is that the industry be completely overhauled and modernised.

(2) The second important measure is with regard to the supply of raw jute. Two things need to be done in this regard. The first is to increase domestic production. Care needs to be taken to concentrate upon the improvement of quality of raw-material. The second thing in respect of supplies of raw jute is that of its assured supply on a regular

basis. For this, besides such measures as the establishment of regulated markets in jute growing areas as recommended by the Jute Commission, there is a need for building a buffer stock.

(3) The third suggestion is to improve the competitive position of the industry in the world markets. Modernisation of jute mills will increase their competitive strength. Increase in the production through raising the yield and improvement in the quality of raw jute will reduce the cost of jute goods. It will at the same time improve the quality of the product. Besides this two more measures should be taken. One is that jute goods should be diversified and for this new uses of jute should be found. Second is that the fiscal policy of the Government should be suitably adjusted, particularly at the present juncture when, because of high prices of synthetic substitutes in the world market, jute manufactures have been afforded an edge over their comparatively new competitors.

Conclusion. The key to the industry's future lies in a regular supply of raw-materials at reasonable rates. It is really a pity that after development over one century the jute industry is still groping around for its raw-material and is at the mercy of both Nature and political developments. Abnormally high jute prices have stepped up the cost of production. The industry is also desperately short of working capital owing to credit squeeze. Thus, so far as jute industry is concerned, stability is conspicuous by its absence. Future, however, need not be gloomy. Discovery of new uses and manufacture of new products obviously constitute the best strategy for the Indian jute industry.

Q. 47. *Give a brief account of the development of the sugar industry in India and discuss its major current problems.*

(Allahabad B. Com. 1981 ; Pb. 1982 ; Jammu 1980 ; Delhi 1978 ; (Magadh 1977 ; Jiwaji 1977 ; Kurukshetra (Hons) 1977 ; G.N.D.U. 1982, 1980, Karnataka 1976)

"The sugar industry in India is the child of protection." Elucidate and discuss its present position and problems.

(H.P. 1981 ; Raj, 1977 ; Kurukshetra 1980),

Or

Review the growth of sugar industry in India upto 1939. How far was it helped by the tariff policy of Government ?

(M.D.U. 1981, Delhi 1979 ; Bom. 1978)

Ans. The cultivation of sugarcane and the making of sugar were undertaken in India even during ancient times. The East India Company used to export large quantities of sugar from India to Europe. The Company attempeted in vain to improve the iudustry for importing West Indian machinery. At that time the Indian sugar was much inferior to the West Indian sugar.

Till 1863-64 export of sugar from India was more than import. But after 1864 she began to import more than she was exporting. The industry was in a very bad state during the last decay of the century. This was mainly due to the competition from outside. Mauritious and Java were the chief sources of import into India. But the real difficulty

for the industry began when Government aided German and Austrian sugar began to be imported into India. The price of sugar in the Indian market declined so low that sugar refining in India became unremunerative.

To help the industry a counter-vailing importing duty was levied in 1902 by the Government on the bounty-fed beet-sugar from Germany and Austria. But in 1904 it had to be lifted in accordance with the decisions of the Brazil Conference. But the greatest competition to the industry came from Java which diversed her attention to the Indian market when the U.S.A., in 1904. gave preference to the Cuban sugar.

During the World War I the imports of sugar stopped and hence the home industry enjoyed a short spell of prosperity. But after the War imports again rose and created difficulties.

The check to imports came only gradually. The trade depression of the 'thirties' lessened largely the purchasing power in the hands of the people of India which in turn lessened the demand for sugar.

The Government of India raised the import duties from 5% to 10% in 1916. In 19 1 it was further increased to 15% and in 1922 to 25%. In 1925 a specific duty of Rs. 4-8-0 per Cwt. was substituted and in 1931 the rate was increased to Rs. 6/- and again to Rs. 7-4-0 in March, 1931.

A Tariff Board was set up to look into the question of giving protection to the sugar industry. It recommeded a scheme of protection to the industry for a period of 15 years. According to the Tariff Board's recommendation the then existing duty of Rs. 6/- per Cwt. was to be raised to Rs. 7-3-0 per Cwt. for the first 7 years of protection and after that date, the duty should be increased by 8 annas if the market price of sugar declined below Rs. 4/- per Cwt. It was of the opinion that the question of the grant of bounty was impracticable,

The Sugar Industry Protection Act was passed in 1932. As a result of the grant of protection imports rapidly fell and the number of factories grew up. The expansion and growth of the sugar industry under the shelter of protection was spectacular. By 1934 *i e.* within 2 years after protection was given—the number of sugar mills increased four times ; and production of sugar increased by seven times. Imports which averaged nearly 10 lakh tons before 1930-31 were curtailed till net imports became 1,200 tons by 1936-37. It was even feared that at such a rate of growth over-production may result. Hence to encourge

excise duty of Rs. 1-5-0

Act was passed in 1934 fixing the minimum prices to be paid by the factories to the sugarcane growers. These measures resulted in enhanced efficiency and dangerous over-expansion was checked.

In 1937 the Government signed the international trade agreement with 20 other important sugar producing nations. Under the agreement India was not to send sugar by sea to any country except Burma for a period of 5 years. This agreement proved to be injurious to the

Indian industry since it prevented them to take full advantage of the new forces of demand created in the world market during the Second World War.

Another Tariff Board was set-up in 1937 and it submitted its report in 1939. It recommended that protection must be continued upto 1946 at the rate of Rs. 7-4-0 per Cwt. But the Government by the Sugar Industry Protection Act of 1939 fixed the import duty at Rs. 6-12-0 per Cwt. upto 1941 but later it was extended to 1946.

In 1937 to prevent internal competition the Sugar Syndicate was constituted. The U.P. and Bihar through legislation forced all the mills in the provinces to join the Sugar Syndicate and sell their sugar through it.

Effect of Protection. The protection granted to the sugar industry proved extremely beneficial. The industry grew rapidly. The number of factories refining sugar direct from sugarcane rose from 31 in 1931-32 to 112 in 1934 and to 151 in 1942-43. The production of sugar increased from 3,13,000 tons in 1920-30 to 11,50,000 tons in 1942-43. In other words India became self-sufficient before Second World War.

World War II. World War II did not benefit the industry. Rather war-time sugar controls retarded the growth of the industry and during the War and many post-War years the industry only marked time since the first phase of progress was over in 1939. In 1950 protection was withdrawn.

Development Under the 5-year Plans.

First 5 year Plan. During the First 5-year Plan period, the Indian sugar industry made good progress. This was due to the fact that the sugar cane crop during the last two years of the Plan was very good. Ample supply of cane enabled the factories to work to their full capacity. The result was that the target of sugar production set for the Plan was surpassed. The output of sugar increased from 11·3 lakh tons in 1950-51 to 18·9 lakh tons in 1955-56, against a target of 16·5 lakh tons.

Second Five-year Plan. The sugar industry had a good start with an output of 20·3 lakh tons in the very first year of the Plan. But the next two seasons turned out to be very unfavourable : production fell to 19.8 lakh tons in 1957-58 and still less to 19·2 lakh tons in 1958-59. Shortage of sugar led to a sharp rise in its price necessitating the imposition of Controls on distribution on movement of sugar. Rationing had to be introduced in some places. But there was a turn for the better in 1959-60, thanks to the Government policy of giving incentives to both the growers and the factories. Production increased to 24·2 lakh tons in 1959-60 and an all-time record of 30·2 lakh tons in 1960-61 against a target of 25 lakh tons. Thus the sugar industry once again exceeded the target set for it.

Third 5-year Plan. Sugar production during the Third Plan increased significantly. In 1961-62, it was 27·24 lakh tons. In 1962-63, production fell to 21·52 lakh tons owing to unfavourable weather and cut in production by the Government. It increased to 25·69 lakh

tons in 1963-64. In 1964-65 there was a spurt in production by nearly 27% and the output touched a new peak at 32·6 lakh tons owing to good weather and incentives given by the Government, *e.g.*, raising the minimum cane price payable by the factories to attract sugarcane, rebate in excise duty for excess production, banning of inter-State movement of [illegible]ween sugar factories anc[illegible]-year Plan target of 35 la[illegible]

Three Annual Plans. There occured a steep fall in 1966-67 to 21·47 lakh tons.

The principal reasons responsible for fall in the production of sugar were :—

(1) Fall in the area under sugarcane mainly on account of diversion of land from sugarcane to high-yielding varieties of wheat and rice owing to their relatively higher market prices,
(2) Unfavourable weather conditions under which sugarcane was sown and lack of rain during the period of growth and
(3) Diversion of sugarcane to *gur* and *khandsari*.

The production of sugar in 1967-68 season increased to 22·5 lakh tons owing to partial decontrol. In 1968-69 a record sugar output exceeded the previous record of 35·41 lakh tons in 1965-66.

Fourth Plan. In 1969-70 season sugar production was 42·62 lakh tons. In 1970-71 India produced 37·65 lakh tons sugar and in 1971-72 our sugar production was 34 lakh tons. Our 4th Plan target was 47 lakh tons of sugar. At the end of 4th Plan (1973-74) our sugar production was 40 lakh tons.

Fifth Plan. Fifth Plan had a fixed target of 53 lakh tons of sugar. At the end of 5th Plan (1978-79) number of mills increased to 292 from 229 in 1973-74 and production increased to 52 lakh tons in 1978-79 from 40 lakh tons in 1973-74.

Present Position.

In 1981-82 there were 292 sugar factories employing over 2·5 lakh workers. Besides this the sugar industry sustains about 2·9 crore agriculturists. Production of sugar increased from 11·3 lakh tons in 1950-51 to 82 lakh tons in 1982-83.

New Sugar Policy. It was felt that while complete decontrol was hazardous, the continuance of controls in the existing form would not check the fall in production. The Government announced in August, 1967, a new sugar policy calculated to increase production. It provided for a measure to decontrol with 40% production, in coming year left with factories for free sale in the market procuring 60% of production for control distribution. The free sale started on December 1, 1967. For 1968-69, the ratio of 60 : 40 was changed into 70 : 30. This new policy seems to have born fruit in the form of increased production.

Main Problems. All is not well with the sugar industry in India. It has to face with a host of problems, the main among them are as follows :—

(1) **Uneven Regional Distribution.** An important problem of industry is that it is mainly confined to U.P. and Bihar. These t States account for about 3/4 of the total number of sugar factorie This is a serious defect of location from the point of view both of raw materials and of distance from markets. New mills should be located in other States, particularly in Tamil Nadu, West Bengal and Maharash-tra to remove this drawback. Punjab also offers a good scope for locating a few new factories : next to U.P., Punjab is the biggest producer of sugarcane.

(2) **High Cost of Production** Second serious problem of the in-dustry is that both the yield per hectare and the quality of cane are low. The crushing efficiency of the mills also is very much behind the stand-ards of other sugar-producing countries. The cost of production of sugar is very high. The cost can be lessened by increasing yield and quality of cane and by improving the technical efficiency of the mills.

(3) **Obsolete Machinery.** Like the cotton textile industry, th sugar industry also is badly in need of replacament, rationalisation and modernisation. Most of the existing mills were put up over a quarter of a century ago and are thus due for large-scale replacement and modernisation. Large funds are needed for this. Prices of sugar machinery have increased by 6 to 7 times since the installation of the present machinery. Normal depreciation funds are absolutely inadequate to cover the replacement expenditure.

(4) **Instability.** An important problem of the Indian sugar is the violent fluctuations through which it passes as indicated by ups and downs in production, surplus succeeded by scarcity, and vice-versa, and control, decontrol and re-control.

(5) **Competition from Gur and Khandsari.** Another problem is that of competition from the khandsari sugar and gur. Production of white sugar is to a great extent affected by the production and prices of gur and khandsari. If because of better gur and khandsari prices the cane grower gets higher returns by converting his cane into gur or by selling it to the khandsari producers, supplies of cane normally meant for sugar factories are increasingly diverted to gur and khandsari production, and to that extent production of sugar suffers.

(6) **Low Yield of Sugarcane.** A serious defect of our sugar industry arises because of the low yield of sugarcane. It is estimated that the yield of sugarcane in India is $\frac{1}{3}$ of Cuba, $\frac{1}{4}$ of Java and $\frac{1}{5}$ of Hawai. It is stated that the best quality of sugarcane can be grown only in the tropics. In India, however, over 90% of land under sugarcane is in sub-tropical areas which is really a wheat tract. Increae in sugar yield can be obtained by the provision of adequate irrigation facilities. Use of manure of the right type and in right quantity, improvements in the method of cultivation, etc.

(7) **Wrong Distribution of Cane Supply.** In U.P. and Bihar, sugar factories are not properly located. In certain areas, they are situated so near to each other that there is a close competition between them for sugarcane. In certain areas, there are not many factories but

the production of sugarcane is large. Consequently there is shortage of cane supply in some areas leading to high prices, while there is superfluity of cane supply in some other areas. In U.P. and Bihar, this wrong distribution of cane cultivation is being rectified by the Zoning System and by reserving areas for each sugar factory.

(8) **Short Crushing Season.** A great difficulty of our sugar industry is that the crushing season is very short. It generally lasts for about 100 to 110 days in a year. Consequently, the sugar factories work only for a short period in a year. This is one of the reasons for high cost. To overcome this difficulty, it is essential to evolve new early ripening and late ripening varieties of sugarcane.

(9) **Low Milling Efficiency.** Our sugar mills have low milling efficiency and the recovery of sugar from sugarcane is very low. There are many reasons for this low efficiency. (1) Many of the units are uneconomic in character, since they do not have the crushing capacity of 800 tons (which is regarded as the proper size of an economic unit). (2) Most mills are working with old and worn-out machinery. (3) Defective size, design, lay-out and the unbalanced nature of the plant.

(10) **Defective Structure.** In other countries, sugar factories possess their own sugar plantations. But in our country sugar mills do not own sugarcane plantations and, therefore, do not have any control over the quantity and quality of sugarcane supplied to them. Besides, they cannot make any effort for improvement of the quality of sugar-cane. In the South, this defect is being rectified as sugar mills are making long-term arrangements to get regular supply of sugarcane, and in [illegible]

(11) **The Problem of By-products.** Last but not the least problem of the sugar industry has been the utilisation of by-products (*bagasse* and *molasses*). Bagasse is used as fuel but it [illegible] as raw-material for making paper. The [illegible] what to do with the over-accumulating [illegible] was found to be a danger to public health. It has now been found that molasses can be used for the manufacture of power alcohol, fertilisers, cattle feed, etc.

A Sugar Inquiry Commission was formed in August, 1964 under the Chairmanship of Dr. Sen, Adviser Planning Commission to make recommendations in respect of pricing, distribution, licensing, export and production of sugar. It reported in Oct. 1965. The Commission diagonsed the industry's chronic disease as instability born partly out of agro-industry's vulnerability to the vagaries of Nature and partly out of adverse effects of policies with short-term ends. The Commission recommended measures aimed at promoting efficiency in sugarcane cultivation and manufacturing industry and ensuring a steady flow of supplies to the consumer at relatively stable prices.

"Managing agency system has been managing a good number of industries in India since their inception."

19

MANAGING AGENCY SYSTEM

Q. 48. Give the origin and growth of the Managing Agency System in India. What are its defects and how far attempts are being made to remove them? *(Pb. 1976 ; Kerala 1978 ; Baroda 1978 ; Srinagar 1978 ; Osmania 1976 ; Raj 1978 ; Allahabad 1980)*

Ans. A Managing Agent is "a person, firm or company entitled to the management of the whole affairs of the Company by virtue of an agreement with the Company and under the control and directions of the directors except to the extent, if any, otherwise, provided for in the agreement." But in actual world he is the real master and is not under the control of the directors.

Origin. According to Dr. Vera Anstey, The managing agency system prevailing in India to-day was originated in 1883 when East India Co. ceased to trade and British firms were given the charter of trading in India. Its origin is "essentially the result of British enterprise in India, the system was gradually developed by the pioneering efforts of older British managing houses which were first to realise the potentialities of economic development in this country when the responsibilities for carrying on trade between Britain and India was transferred from East India Co. to private traders." The geographical factor of long distances between head office of companies in Britain and actual field of their operation in India, the shyness of Indian capital, absence of rapid financial institutions, lack of competent directors, late development of joint-stock banking system, thus all these causes joined-hands to throw industrial enterprise into the arms of the managing agents. They undertake work of management and are paid a monthly remuneration and also a percentage of the profits.

Types of Managing Agents. The managing agent may be an individual, a partnership firm, a joint-stock company, private limited as well as unlimited, the chief among them being found in Bombay, Ahmedabad, Calcutta and Madras. A note-worthy feature of Managing Agency

firms in Bombay and Ahmedabad is the predominance of the Indian element. In Calcutta, it was just the opposite—the European. From the very beginning of the Managing Agency System there has been a trend towards the concentration of control of a number of concerns under one managing agent. This control extended to widely divergent industries at times. Andrew Yule & Co. Calcutta at one time managed 46 concerns. The biggest managing agency is now Bird and Co. which manages 40 joint stock companies. Seventeen top managing agents control the biggest enterprises and control 10-40 companies each." Textile Labour Engineering Committee in 1938 found out that of the total loans of cotton mills more than 75% were given by such agents or guaranteed by them. Of the total productive assets of companies in India, nearly 80% are estimated to be in companies managed by such agents. About 60% managing agency concerns are limited liability companies. According to one source, there are 3944 managing agents managing 5,055 joint stock companies or 17·1% of total companies. The proportion paid-up capital of companies under managing agents goes up to 50·4%. The industries in which influence of managing agencies in most pronounced are jute, cement, cotton textile, [illegible] paper and [illegible] ing agents [illegible] % of 3,944 managing agents manage one concern.

Functions. The managing agent plays the role of promoter, financier and manager.

(1) The managing agents do the preliminary work of bringing the concern into existence and place it up on its in own legs. "Nine out of ten industrial concerns that are established in India owe their inception to these managing agents." (—*M.A. Mulky*)

(2) They provide not only initial capital for the new concerns but also [illegible] and modern [illegible] for finance [illegible] It is also their regulation which induces some moneyed people to keep their money with mills as deposits.

(3) They carry on day-to-day business as managers.

Benefits. (1) "In the early days of industrialisation, when neither enterprise nor capital was plentiful, the managing agents provided both and India's well-established industries like cotton, jute, steel etc. owe their present position to the pioneering zeal and fostering care of several well-known managing agents... A majority of the industries in the private sector are at present operated and managed through [illegible]

(2) Various economies (internal and external) have [illegible] because one agency sells goods and purchases material, [illegible]

mill stores on behalf of a number of concerns and the same office manages them.

(3) It has made the advantage of integration available to the various concerns under them.

(4) Financial co-operation among various concerns has also been rendered possible, because the surplus funds of one are lent out to another which may be in requirment.

(5) "It has rendered signal service to Indian industries during the last 75 years." (—*Fiscal Commission 1950*)

(6) It combines the merits of a partnership with those of joint stock company.

(7) It ensures some of economies of vertical expansion "in so far as jute mill, a coal company, a tea garden, and a boat company are all under one common management, the products of one concern find a market in the business of other."

(8) It has saved very many concerns from experiencing failures and has provided a straw to the drowning concerns.

Defects. (1) Managing agents have incurred high cost in promotion which is not justified by the earning capacity of new concerns.

(2) Managerial function along with financial control has produced a terrible concentration of economic power in the hands of managing agents. Consequently companies under their control have suffered from an oppressive and inefficient management.

(3) This system has served both as an expression and a partial cause of lack of drive towards greater efficiency and rationalisation of Indian industry.

(4) 'Interlocking of funds was a necessary off-shoot of managing agents' financial control over strong and weaker firms. Transfer of money from the strong firms to the weaker one was a dangerous procedure.

(5) The remuneration of the agents had been too high and had no proportionality to their work or the financial soundness of the concern they did manage.

(6) The agents had also been getting secret commission in the course of selling and buying transactions which they undertook on behalf of the mills.

(7) Managing agents after supplying the industry with capital were bent on getting a high price in the form of various charges and commissions which had to be paid whether the operating company earned profit or not.

(8) It has fostered indifference and ignorance on the part of the directors who had no real responsibility.

(9) Some undersirable financial practices of the managing agents were that borrowing was made for illegitimate purposes, loans and allowances were given to friends, the assets of financially sound concerns were mortgaged and debentures issued not because company required more funds but because agents required for their personal purposes.

(10) The easy availability of funds from the client concerns induced many agents to enter into speculative deals beyond their capacity.

(11) Owing to the system of managing agency finance, industry had come to be dominated too much by financial factors and too little by industrial considerations.

(12) These managing agents have got too many irons in the vast and uproarious fire of their activities. Andrew Yule & Co. at one time managed 54 concerns. Now Bird & Co. manages 40 concerns, Dalmia controlled 40, Thapars 32, Birlas 24 and Tatas 39."

Managing Agency Reforms. The abuses of the system were first sought to be removed under statutory control in 1913 when the Companies Act was passed. It was amended in 1936 to eradicate some of those abuses which were not corrected by 1913's Act. The Companies Act, 1949 further strengthened the grip upon the malpractices of the agents. The new Companies Act, 1956 deals very severely so far as managing agents are concerned.

(1) "The Central Government can declare that all companies in certain business shall not have managing agents from a specified date."

(2) "The appointment or re-appointment of agents by a Company must be approved by the Company itself first at a general meeting and then by the Central Government."

(3) "No person at one time to hold office as agent in more than ten Companies."

(4) "In case of fraud or breach of trust or gross negligence or mis-management, an agent may be removed from his office."

(5) "The agents are permitted to get by way of remuneration up to 10% of net profits."

(6) "An agent is to use his power subject to the superintendence, control and direction to its Board of Directors.

The Act was amended in 1960, (1) "It provides that a company cannot employ at the same time more than one of managing directors."

(2) "No company may appoint as it agents any company which is a subsidiary company."

(3) "Tenure for the first time for a managing agent was 10 years and for re-appointment 5 years."

(4) It clarifies conditions of appointment of managing agents. According to Sub-Committee of N.P.C. "The system is rotten, and branch, leaf and bark blossom." But this type of

is not justified. In spite of these drawbacks it has much to its credit. In any case, we cannot do without it unless an alrernate arrangement is made.

Recent Trends. In recent years there have been significant developments in Indian economy and these have detracted from the usefulness of manging agency. We have developed a strong and sound institutional set-up for capital and credit. Our capital market today—though imperfect—is far superior than what it was some years back. Similarly the new obligations of modern industry have shown the ineffectiveness of the traditional form of company management. "Our industries have to get rid of their mercantile moorings and depend more on managerial skill and expertise". It is heartening to note that a beginning has already been made. A band of company executives and managers is now emerging in the country. Promotion activities are also getting diversified. Conditions are not now as conducive for managing agency as they used to be.

The managing agency has undergone a significant change. According to a study by A.K. Sur, a good number of English managing houses have passed into Indian hands in the post-Independence period. He studied 10 important British managing houses of Calcutta. He found that in 7 of them Indian directors were in majority or at par with non-Indian directors. The holdings of non-Indian directors were also found to be low in most of the cases. In majority of the cases the European interest in these concerns was no longer found to be of great significance. Further, managing agency houses themselves now depend upon institutional credit. According to A.K. Sur, "In the majority of cases it is either joint stock companies or institutional investors who hold the predominant interest. Individuals are less important." Dr. R.K. Hazari has also arrived at a similar conclusion. 'Managing agency company is no longer a significant investor in managed companies, though it may continue to be a financier or guarantor, directly or indirectly. Analysis of shareholders' register indicates that except in some cases, the managing agents specialise in the function of management and leave most investment for purpose of control and provisions of finance to other companies, trust and individuals belonging to the same group."

Because of these trends and the restrictions levied by the Companies Act, 1956 and its amendment of 1960 on the managing agents, the system has become unattractive. Before April 1956, the coverage of managing agency system extended to 1/6 of the corporate sector and in terms of paid-up capital more than 1/2 of it was covered by managing agents. The influence of managing agencies was most pronounced in jute, cotton textiles, cement, electric generation and supply, coal-mining, iron and steel, paper and matches. In each of these industries, the paid-up capital of the companies managed by managing agents ranged between 80% and 94% of the total paid-up capital of the industry. In the ease of certain other industries such as mica, manganese ore, power, alcohol, stainless steelware and dairy products the paid up capital of agency-managed companies was less than 50% in

each industry. In the other industries the influence of managing agents was not so important.

As on the 15th August, 1960, managing agencies managed only 5% of the total joint stock companies. Of the 6,039 newly formed companies during the Second Plan period only 71 companies proposed to appoint managing agents : 4,166 decided to be managed directly by board of directors, 1,779 decided to be run by boards of directors with managing directors, 13 by secretaries and treasurers and 10 by managers.

Companies (Amendment) Act, 1963

The Act aims at safeguarding the interests of the investing public. (*a*) It provides for the setting-up of a *tribunal* which would go into the cases of persons found to have done frauds and dishonest practices in the management of a Co. If found guilty the Central Govt. would remove them from position of managerial authority even if their term of office has not expired. (*b*) It also provides for setting-up *a board* to secure better and more effective administration of the company law. (*c*) There is also a provision for *regulating rights* of trusts in respect of shares held by them in joint-stock companies.

How Far Successful ?

In spite of these legislative measures passed to cure the evils of the managing agency system, it has not yet been completely freed from the evils. Some of the more important malpractices relate to the [illegible] aces outside the State, [illegible] managerial remuneration [illegible] given to the directors and their executives.

However, the net result of the legislative measures taken has been to make the managing agency system unattractive. The Company [illegible] the year ending March 31, 1962, shows [illegible] agency system and the weeding out of [illegible] proper company methods and practices and the evasion and avoidance of the law. The number of new companies which adopted the managing agency system during the period 1956-1965, was only 1·5% of the total number of new companies registered during the period.

The Patel Committee (*1966*) recommended a policy of discouraging the system mainly on the ground of disharmony between the efforts of the managing agents and the reward that they get for these efforts. In course of time, as industry gets established, the dynamism and the pioneering spirit of the founding fathers is absent in their successors. The Committee finding that 92% of managing agents manage one or two companies only and hardly have any organisation of their own. While the active part in the management is taken by one or two persons, the remuneration is shared by large number of persons who do not

play any role in the management. Thus, there is no force in the argument that the managing agency system provides substantial and irreplaceable advantages of group management. The Committee therefore recommended the discontinuance of the system in cotton textile, sugar, and cement industries and go slow in the case of jute textile and paper industries.

Accordingly in 1966, Indian Govt., decided to abolish managing agency system in cotton, cement and sugar industries and gave them 3 years ending in March 1970, to make alternative arrangements.

Managing Agency System Abolished. In December 1967 our Government decided to abolish managing agency system altogether as well as the Institution of Secretaries and Treasurers. Accordingly the Companies Amendment Act was passed in May 1969 and with this Act the managing agency system came to an end on April 1, 1970.

"Interest in the condition of factory workers was first aroused in India not by the humanity of a few enlightened manufacturers, politicians or better class of inhabitants of industrial towns as in England but by the discovery of certain Lancashire cotton manufacturers and merchants in 1870's that a cotton mill industry had sprung up in Bombay Presidency."

20

LABOUR LEGISLATION

Q. 49. Describe at length the history of Factory Acts in India. What were the influences responsible for these Acts ?

(Kuru, 1978, ; Bom. 1979)

Or

Describe the landmarks in the history of factory legislation in India. How far labour has been benefitted therefrom ? *(G.N.D.U. 1981)*

Ans. "Interest in the condition of factory workers was first aroused in India not by the humanity of a few enlighted manufacturers, politicians or better class of inhabitants of industrial towns as England, but by the discovery of certain Lancashire cotton manufacturers and merchants in the 1870's that a cotton mill industry had sprung up in the Bombay Presidency." Thus it was the selfinterest of the Lancashire manufacturers that first stimulated enquiry. But once the enquiries showed the wretched conditions of the factory workers, honest sympathy in India was aroused. After some agitation in the press and in the House of Commons, the Bombay Factory Commission was appointed in 1875, and its findings resulted in the passing of first Factory Act in 1881.

Factory Act of 1881. It prohibited the employment of children below the age of 7 years in any factory and laid down that those between 7-12 years of age were not to work in any factory for more than 9 hours a day. It also provided 4 holidays in a month and thus gave some protection to child labour but ignored any relief to the adults.

Foctory Act of 1891. The Act of 1881 could not satisfy the British manufacturers and merchants who wanted a more stringent measure to be undertaken. Agitation for its amendment started first after it was placed on the statute book. The pressure resulted in the Second

Factory Act which was passed in 1891 which applied to all establishments employing 50 more workers and using power. The employment of children below 9 years of age was prohibited and those between 9-14 years of age were not to work more then 7 hours a day. Children and women were not to be employed at night i.e. 8 P.M. to 6 A.M.

Factory Act of 1911. The use of electric in Bombay mills in 1905 made the night work at cotton mills possible and the hours of work became excess. The Press in India and the social reformers became critical about the labour conditions. This led to appointment of Labour Commission which gave its report in 1908 and its recommendations were incorporated in the Factory Act of 1911. For the first time, protection was given to the adult male workers. Their maximum working hours were fixed as 12 with one hour's rest-break. Barring under an approved system of shift, no worker was to be employed in a factory before 5 P.M. and after 7 P.M. The maximum hours of work for children were reduced to 6 a day.

Factory Act of 1922. The First World War brought about a quick industrial growth in our country and resulted in increased consciousness of their rights on the part of workers. The entry of India into League of Nations and acceptance by her of obligations arising from conventions adopted by International Labour Conference held in 1919 at Washington, made further changes in factory laws necessary and hence Factory Act of 1922 was passed.

By this Act, all factories making use of power and employing not less than 20 workers were brought under the purview of factory law. The maximum working hours for adults were fixed at 11 a day and 60 a week. The maximum age for employment of children was increased from 9 to 12 and the upper limit was fixed at 15. The local Governments were empowered for making rules for sanction and ventilations of factories. The system of inspection was also improved upon.

Factory Act of 1934. In 1928 Government of India appointed a Royal Commission on Labour which gave its report in 1931. Consequently in 1934 another Act was passed which divided factories into two classes, *seasonal* and *perennial*. Under the former, came those which worked for less than 6 months in a year, while latter included those which worked for more than 6 months in a year. The maximum hours of work for adults in perennial factories were fixed at 10 per day and 54 per week while for seasonal factories the limit was 11 and 60 respectively. For children, hours of work were reduced to 5 per day. The principle of spread-over was introduced for the first time and the number of consecutive hours of work was fixed at 13 a day for adults and 6½ for children. Over-time was fixed at 1¼ times the ordinary wage.

Factory Act of 1948. The experience of the functioning of 1934 Act brought to light certain short-comings. The provision for safety, health and labour welfare were not satisfactory and Act did not extend its protection to a large number of workers. The necessity for a

comprehensive act was felt. So in 1948, more comprehensive Act was passed which cancelled all the previous Acts. Its main provisions are :

(1) It is applicable to factories employing 10 or more labourers where power is used and 20 or more where power is not used. It removes the distinction between seasonal and perennial factories of 1934 Act.

(2) No child below 14 years of age can be employed.

(3) A child who has completed his 14th year but has not completed his 18th year shall produce a certificate of fitness from a recognised surgeon.

(4) Working hours for persons below 18 have been reduced to 4½ a day and 24 a week. Hours of work for adults have been reduced to 9 a day add 48 a week.

(5) No worker shall work for more than 5 hours before he has a half hour break.

(6) The working hours for women and children are to be between 6 a.m. and 7 a.m.

(7) Payment for overtime is to be double of the ordinary payment.

(8) There must be a weekly holiday. Every person is also entitled to have leave with pay after a year's continuous service at the rate written as :—Adult 1 day for every 20 days of work ; persons below 18, 1 day for every 15 days of work.

(9) Women and children are not to be given work on the machines which are exposed to risks of accidents.

(10) Elaborate provisions have been made regarding health, safety and welfare of labour. There is provision of cleanliness, disposal of waste, ventilation, exhaust for dust and fumes, drinking water, latrines and urinals and first-aid-boxes, etc. Factories employing more than 500 workers will have to employ a Labour Welfare Officer and to have ambulances. Factories with 250 labourers, 150 labourers and 50 woman workers will have to provide canteens, rest rooms, lunch rooms and creches respectively.

(11) The State Governments have been empowered to prepare [illegible] requiring the registration and licensing of factories.

(12) Penalties can be imposed on labourers the for breach of [illegible] It provides for imprisonment upto 3 months for the first offence [illegible] months for the second and subsequent offences.

Besides this strict factory legislation, a large number of [illegible] of labour legislations have also been passed. These are [illegible]

Mining Legislation. The First Mining Act was [illegible] which was amended in 1923. In 1952 a more comprehensive Act was passed which provided (1) minimum age of [illegible] for above ground work and 18 for below ground work [illegible] hours 9 above ground and 8 underground (2) [illegible]

employed in underground work ; (4) over-time for above ground is rated 1½ times of ordinary wages and for underground double of the ordinary wages.

Shops and Offices Legislation, 1942. It provided a weekly holiday, opening and closing hours, hours of work, rest, intervals etc. In shop, restaurant and theatre.

Plantation Legislation, 1951. It fixed 54 hours a week for adults, 40 for adolescents and children and prohibited employment of children below 12 and night work for women and children between 7 P.M. and 6 A M.

Payment of Wages Act, 1936. It was passed to deal with the abuses existing with regard to the methods of wage payment. According to this, wages must be paid regularly and timely. The Act provided that wages must be paid within seven days from the date of expiry of the month in establishments employing less than 1,000 persons and within ten days in bigger establishments. Deductions and fines are permitted only in exceptional cases. Fines which cannot exceed half an anna in the rupee of the workers earnings, when realized must be spent for the benefits of labourers.

Minimum Wages Act, 1948 This Act is meant for protecting sweated labour. According to this Act, the Central or State Governments can fix minimum wages payable to labourers in certain specified industries where there is a more chance of exploitation of labour. No minimum wages are to be fixed in an industry which employs less than 100 workmen. The various State Governments have already fixed minimum wages in certain industries under this Act Unfortunately the wages fixed under the law have not proved very effective in many cases. Progress in the implementation of this law has also been very slow.

Dock Workers Regulation of Employments Act, 1948. This Act provides for the decasualisation of workers and provides their terms of employment, remuneration, training and welfare, etc.

Trade Union and Trade Disputes. Trade Union (Amendment) Act, 1947 provides for compulsory recognisation of unions by employers. Industrial Disputes Act, 1947 provides for the machinery for prevention and settlement of labour disputes.

Labour legislation in our country is still in its infancy. Our position is not very satisfactory. We have still to go a long distance on the road of social justice. There is no room for complacency. A great zeal will have to be shown by State in the matter of labour legislation.

Q. 50. Review the history of Social Security Legislation enacted in India. Is it adequate ? *(Raj. 1978, 1973 ; Kuru ; 1980 Jammu 1980 ; All-habad 1979 ; Srinagar B. Com. 1982s; Karnataka 1980)* *Or*

What is meant by Social Security ? Enumerate the measures which have been taken in India for Social Security.

(Pbl. B. Com 1981, Mad. 1980, M.D.U. 1979)

Ans. Social Security measures have had a long history in other countries but in our country they have a recent birth and are still in infancy. Before the Second World War, Workmen's Compensation Act and Maternity Benefits Act were the only social security measures available in India. Since 1947, two important measures have been passed. Employees' State Insurance Act, 1948 and Employees' Provident Fund Act, 1952 were passed.

Social Security refers to the security that society guarantees through Govt. against certain risks to which its members are exposed. It is the combination of both social insurance and social assistance. Social insurance provides benefits to those who make contributions to the fund and include risks of unemployment, sickness, old age etc. while social assistance provides free benefits and include, hospitals, maternity homes, child welfare-centres etc. Hence Social Security has become current in the context of the ameliorative measures adopted by modern Governments.

Workmens' Compensation Act of 1923. Prior to 1923 an employer could be sued under the Fatal Accident Act, 1885, in case of death arising from an accident ; but the law was practically a paper law. In 1923, the Workmen's Compensation Act was passed, according to which compensation should be given to labour in case the accident occured during and in the course of work. The Act was amended in 1926, 1929, 1931 and 1933 and its scope was largely broadened. Some more amendments of a technical character were affected in 1939.

The amount to be given as compensation in case of fatal accident depends upon the average monthly pay of the deceased, and in case of injury, on the monthly salary and the extent of injury. It has been fixed as below :

Wages	Death	Permanent Displacement	Temporary Displacement
less than Rs. 10	Rs. 500	Rs. 700	½ wages
Rs. 50-60	,, 1,800	,, 2,520	Rs. 15 p.m.
over Rs. 300	,, 4,500	,, 6,300	,, 30 ,,

In case of minors, the figures are 200, 1,200 and ½ wages respectively. The Act was amended in 1959 by which distinction between an adult and a minor for the purpose of payment of compensation was removed. Persons working in administrative or clerical capacity and those whose pay exceeds Rs. 400 (except railway servants) are excluded. The wage limit has now been increased to Rs. 500 under amendment to the Act in 1962-63. It also applies to specified occupational diseases. Compensation is not paid if injury does last before 10 days and the injury is caused by the worker's own fault. But any person who is covered by the Emyloyees' State Insurance Act 1948 and who is authorised to displacement or dependent's benefits from State Insurance Corporation is not authorised to have any compensation from the employer under this Act. To safeguard the interests of the dependents, all fatal accidents should be brought to the notice of missioner and the amount of compensation has to be at once depo with him. If the payment of compensation is delayed 6% interest

be charged and a further penalty up to 50% if there is no justification for such delay.

Maternity Benefits Legislation. The first measure of provincial legislation was Bombay Maternity Act, 1929 followed by an Act in C.P. in 1930. The Royal Commission on Labour recommended its application throughout the whole of India. Consequently such Acts were passed by almost all the States. Three Central Acts are, Mines Maternity Benefit Act, 1941, the Employees' State Insurance Act, 1948 and Plantation Labour Act, 1951 which determine payment of maternity benefits. To prescribe uniform standards for maternity benefits, the Maternity Benefits Act, 1961 has been passed. It is applicable to all factories, mines and plantations except those to which the Employees' State Insurance Act is applicable. It provides payment of cash benefit to women for a specified period before and after child-birth, a compulsory period of rest after delivery and also before delivery if notice is given. The qualifying period varies from 6 months to one year.

The Employees' State Insurance Act, 1948 (Amended in 1951). It is with this Act that foundations of Social Security were laid in our country. The Act provides for *sickness, maternity, disablement and medical benefits* for all labourers (wage less than Rs. 400) in factories having 20 workers or more and using power. Beginning with two centres of Delhi and Kanpur, the area of its application has been widened so than by the end of March, 1961, it covered 23.35 lakh workers. During Third Five-year Plan it was extended to all centres with 500 or more workers, bringing total coverage to 30 lakh workers. The minimun number of weekly contributions that must have been paid by the labourer is 12 for maternity and sickness benefits. It provids sickness benefits for 8 weeks at $\frac{7}{12}$ of weekly pay and medical care, maternity benefits at 75 paisa for 12 weeks and medical care, disablement and benefits, in case of injury ½ of average pay. The pension of permanently disabled worker is fixed at $\frac{7}{12}$th of weekly pay. Regarding the funds, the scheme is contributory one *i.e.* funds are derived from contributions payable by Government, employers, employees, grants, donations. The share of employees depends on their wages but in area where it is applicable workers are not required to pay and employers contribute 2¼% of total wage bill where it is applicable and 3/4% where it is not applicable. By the end of March 1978, about 46 lakh workers and 140 lakh dependents were covered in 328 centres in our country. The E.S.I. corporation is running 51 hospitals with over 7,600 beds, 27 annexes with 480 beds, 140 dispensaries and 761 mobile dispensaries.

The Employees' Provident Fund Act, 1952. It provides for the future of labourer after he retires for his dependents in case he dies early. It was initially applicable only to 6 industries and was extended to 61 other industries by the end of 1961. It applies to such industries which employ 50 or more labourers and have existed for a period of 3 years. The labourers who have laboured continuously for full one year and whose wage is not more than Rs. 500 per month are compulsorily required to pay 6¼% of their basic pay. The employee may, if he so desires contribute 8⅓%. The employer is required to pay an equal

amount in respect of such labourers. The Act was amended in 1960 to apply to smaller units employing 20 or more persons. During the Third Plan it was extended to such industries as are able to shoulder the financial burden. Since 1961 it was extended to concerns busy in storage transport, distribution of petroleum and natural gas, hotels and restaurants. For the labourers in coal-mines, there are separate provident fund schemes. By 1982 this Act covered 137 industries all over India except of J. & K By the end of March 1982 there were 75 lakh subscribers and total receipts stood at Rs. 300 crores.

Industrial Disputes Act (Amendment), 1953. It provides payment of compensation to workers laid off or retrenched It lays down that no labourer who has rendered one year's continuous service or more shall be retrenched unless he has been served with one month's notice in writing or one month's wages in lieu of such notice and compensation calculated at 15 days' average pay for every completed year or any part thereof in excess of 6 months. It is applicable to factories employing 50 or more labourers and to plantations.

Another Amendment (1957) provides that retrenchment compensation shall be paid even in bonafide closure or transfer of a concern.

Social Security for Old and Disabled. A scheme of social assistance has been prepared by the Union Ministry of Labour. Under this scheme old persons unable to work, the physically handicapped widows and distitute children shall get financial help. A relief and assistance fund has been set up with an initial sum of 2 crore rupees. In view of limited funds a beginning will be made on a pilot basis.

A bill was introduced in Parliament in Dec. 1970 to provide for a family pension scheme for industrial workmen. It is on the pattern of family pension scheme for Central Government employees which came into force from January, 1964. The scheme provides for a life pension to the widow or minor children of an employee with a minimum of Rs. 25 per month and a maximum of Rs. 150 per month. A portion of the provident fund will be set aside for the purpose. It is proposed to be augmented by Government contributions. Some States have already introduced the scheme of old age pension and that for the relief and assistance of the handicapped.

However these are only modest beginnings in the direction of social security—a case of little done and vast undone. Moreover, the measures already taken have not been properly integrated with each other [illegible]

[illegible] to attain the standards of the advanced countries where social security from the cradle to the grave has been provided.

Q 51. Review the history of industrial relations in India and examine the State legislation in this respect.

(Kuru, 1980, Himachal 1978, Srinagar 1972 : Pb. 1981 ; Bom 1979, Luck. 1980 : Karnataka 1981, M.D.U, 1981 G.N.D.U. 1980)

Ans. History of Industrial Disputes.

Before the First World War. Before the World War I *i.e.* 1914 the strikes were few, sporadic and not well-organized as there were few labour unions. There was no class-conciousness among workmen nor desire to oppose their employers.

The War and After. Then started a new era. Strikes increased, became longer and were well-organized by Labour Unions. The labourers became class-conscious and opposed their employers. During the War and the post-War boom, profits and prices increased, but wages lagged behind. In the depression of 19˙0-22, again, wages were cut or bonuses stopped · and labourers were dismissed because of bad trade or rationalization. With the result, the strike became an ordinary weapon with the labouring class.

During the post-War boom, industrialists did not want to lose many working days. Besides, as wages had lagged behind prices, there was a large margin for increasing the former. Strikes wrre short and successful. But when the boom gave place to the depression, there was a steady fall in the number of strikes and increase in their length and in the proportion of unsuccessful strikes. In 1923 started the reverse movement of fight against wage-cuts. For some years strikes became few and far between.

1929-37 When the depression started in 1929, the vast mass of unemployment made the position of workers very hopeless. As a result the number and intensity of strikes began falling. There were other causes also for this change. The failure of the general strike of 1929 ; split in the trade union organization ; jailing of many extremist leaders were these causes. Besides, the hopes raised by the Royal Commission on Labour (1930-31) were partly realised. Lastly there was the Trade Disputes Conciliation Act of 1934 in Bombay. Under it the labour officer heard 3,600 cases in 1935-37, of which 2,700 were decided in favour of labourers.

1937-39. By 1937 industry had revived from the great depression and was making more profits. There was also Communist activity. Labour hoped for great things from the popular ministries in the Provinces. All this led to a renewal of strikes, there were demands for withdrawing wage-cuts and even for paying higher wages.

1939-45 (Second World War). The Second World War brought about many developments. Because of the need for all-out production, there was much more employment and a larger labour-force. Then there was the steep rise in prices, but not in wages, and scarcity of the necessaries of life. These resulted in the demand for dearness allowance (D.A.) and threats of strikes. The 'Quit India' movement against foreign rule was started in 1942. Government set up enquiry bodies or conciliation boards and later the dearness allowance was linked with the cost of living. Because of strikes, Government assumed emergency powers. Strikes and lock-outs were prohibited. Instead, there was to be compulsory conciliation or adjudication. Government could also fix the terms of employment.

But with the end of the Second World War and especially with the dawn of Independence, industrial disputes enhanced and production fell. In 1946, 12·7 mn. and in 1947 16·8 mn. working days were lost as against only 4·1 mn. in 1945. This enormous increase in industrial disputes was due to (*i*) the surge of a new hope in the hearts of workers with the achievement of the country's Independence. The workers wanted to better their economic condition and this took the shape of strikes. The *Government's labour policy which was to get higher* wages and better conditions of work to labour also helped this process ; (*ii*) the increase in prices, which was not quite so high during the war period. The general index number of wholesale prices which recorded only 244 9 in 1945-46 rose to 275·4 in 1946-47 and 307 in 1947-48. The prices had increased but wages had not increased proportionately, thereby creating great hardship for labour which struck work in a number of industries to get wages increased ; and (*iii*) relation in the attitude of labour with the lapse of D. I. R. The workers did not have the same desire to work hard to enhance production as they had during the War,

The situation became quite acute and the Government had to interfere to *secure an Industrial Truce Agreement in December, 1947, which* improved industrial relations in India. As a result of labour agitation and the interference of the Government, workers got higher wages including D. A., bonus and a share in profits. It has been argued that in spite of the increase in money wages, the real wages of labour had not increased in terms of goods and services, which they could buy with their money wages, the workers were worse off than they were in the pre-War period. Their argument overlooked the fact that it was not only workers but all classes of people who have had suffered on account of high prices. The real question was not whether the labourers have suffered but whether they have suffered relatively more than other sections of the community. In any case, although some sections of labour agitated for higher wages, the workers as a class were satisfied and industrial *strikes were reduced. The mill-owners did not declare* lock-outs because although wages had enhanced, the price of the finished goods had also increased and due to the persistence of a seller's market the mill-owners did not suffer much loss Under the industrial disputes legislation, the machinery for the settlement of disputes was gradually made more effective *and, through conciliation* and *compulsory arbitration* many industrial disputes which would otherwise have taken place were prevented. In 1950, the number of man-days lost increased to 12·81 mn. not due to an all round deterioration in industrial relations but due primarily to a protracted strike in the cotton mill industry. Out of the 12·81 mn. man days lost, the cotton mill industry, alone accounted for 10·3 mn. Since the Industrial Truce, industrial relations in India have not been seriously disturbed and, number of man-days lost, fell to 3·82 mn. in 1951, 3·34 mn. in 1952, 3·8 mn. in 1953 and 3·72 mn. in 1954. The number of man-days lost increased to 5·38 mn. in 1955 but this was due to a dispute in the Kanpur Cotton Mill Industry and does not show a general deterioration in industrial

relations. Out of 5·38 mn. man-days lost, the cotton mill industry accounted for over 2 mn. and some 1½ mn. of these man-days were lost in May, June and July in 1955.

The work-stoppages consequent upon strained relations between labour and management have been as many as 1,020 in 1981, and 1,940 a year before in 1980. The number of workers involved, though less, at 429 thousands in 1981 as compared to 1,150 thousands in the previous year, was nevertheless considerable. Man-days lost were 9,740 thousands and 21,900 thousands in 1981, and 1980 respectively. Valued in terms of wages, workers lost Rs. 4·86 crores (for 618 disputes) in 1981, and as much as Rs. 34·62 crores (for 1,520 disputes) in 1980. As a consequence of work-stoppages, t[illegible] amounted to the staggering figures [illegible] in 1981 and still higher amount of [illegible] in 1980.

Strikes, lockouts and gheraos. Disputes create varied problems,—emotional, physical, law and order etc. depending upon the form that disputes take, and the magnitude of the course adopted by workers and/or employers The strikes, resorted to stop work by workers, in [illegible] workers with 16,700 [illegible] by employers render- [illegible] the loss of work to [illegible] ays lost. Gheraos, 34 in number were practised by 8 thousand workers with 34 thousands man days lost in the process.

Legislation.

The maintenance of industrial peace and prosperity is essential for industrial progress and prosperity. As the Planning Commission says, "The employer, worker relationship has to be conceived as a partnership in a constructive endeavour to promote the satisfaction to the economic needs of the community in the best possible manner." Industrial conflicts cause a heavy loss to both the employers and the employees. Furthermore, which-ever party may win in an industrial dispute, the public always stand to lose.

Though modern industry began to develop in India by about the middle to the previous century, yet till the beginning of the World War I no industrial dispute of importance took place. The World War I [illegible] prepared to [illegible] 1918 led to [illegible] Government called for the views of the Provincial Governments on the subject. The general trend of replies to the Government from the Provincial Governments was against legislation in any form and so the Government let the matter rest for some time.

As strikes became more common and prolonged and as a number of strikes took place in the public utility services the demand for [illegible]

official action became stronger. Committees of enquiry to examine the question of settlement of disputes were made by Bengal and Bombay in 1921. But no immediate action was taken on the recommendations of these committees. In 1924, after the Bombay Cotton Mill strike, the Bombay Government brought forth a Bill "to provide for enquiry into and settlement of trade disputes." But the Government having decided to legislate on the subject asked the Bombay Government not to proceed with its bill. In 1924 the Trade Dispute Investigation Bill was published by the Government. But no further action was taken.

The Bill, however, was first introduced into the Legislative Assembly in 1928 and was passed in 1929.

The Indian Trade Disputes Act, 1929. This Act made separate provision for public utilities and for other concerns. In the case of public utility services, such as the railways. P and T ; electric and water-works, public conservancy and sanitation, strikes were forbidden except after giving 14 days previous notice to the mill-owner. In the case of other concrens, strikes and lock-outs could be resorted to but a definite machinery was provided for the settlement of such disputes when they appeared. Provision was made for the setting-up of an *ad hoc* Court of Enquiry or Board of Conciliation in case of industrial dispute. A court of enquiry consisted of one or more independent persons enquired into the matter and reported to the Government. A Board of Conciliation brought the parties together and affected a settlement, failing which the matter was reported to the Government. This Act did not provide for compulsory arbitration and confined Government's action only to bringing the parties together and making the causes of dispute and other matters relating to it public so that public opinion might assert itself in bringing about a settlement. In order to save the public interest, the Act made these strikes and lock-outs illegal (*a*) which had any object apart from the furtherance of a trade dispute within the trade or industry in which the parties to it were enaged, and (*b*) which were made or were calculated to give severe hardship upon the labour force and thereby compel the Government to take any particular action.

This Act was powerless and did not improve industrial relations as in it (*a*) more reliance was placed upon *ad hoc* public inquiries rather than on the efforts of conciliation of dispute, and (*b*) no provision was made for the establishment of a Permanent Industrial Court.

Industrial Disputes Act, 1947. In Feb., 1947, the General Legislature passed the Industrial Disputes Act, which overcome some of the drawbacks of the trade Disputes Act of 1929. This Act provided for the establishment of Works Committees, the appointment of Conciliation Officers, Concilation Boards and Courts to Enquiry and also for perma-

h Court Judges. The Act

conciliation

The Works Committees

to remove day-to-day differences between employers and

mutual discussions while the Conciliation Officers and

Boards are to bring about a mutual settlement between different parties. But if such efforts do not succeed, provision is made for referring the dispute to an Industrial Tribunal. The Government has the power to enforce the decision of such tribunals either wholly or partly. Thus, this Act also provided for compulsory arbitration.

Some deficiencies of this Act were removed by the Industrial Disputes (Amendment) Ordinance, 1951, which brought within the scope of adjudication units in which no dispute had taken place but which were likely to be affected later on. This was found necessary in order to prevent the recurrence of disputes on similar points in other concerns in future. The Industrial Disputes (Labour Appellate Tribunal) Act, 1950 provided for the constitution of an Appellate Tribunal which would hear appeals from the awards of the different Industrial Tribunals, Courts, Industrial Wage Boards, etc. The Labour Appellate Tribunal was empowered to hear appeals from any award or decisions of an adjudicating authority if (*a*) it evolved a substantial question of law or (*b*) it related to wages, gratuity, bonus, payment and retrenchment, etc.

Industrial Disputes Act, 1956. A Labour Relations Bill was placed in Parliament in 1950 but it did not proceed with as it led to much criticism both from the mill-owners and the labour leaders. A revised Bill to amend the *Industrial Disputes Act, 1947* was placed before Parliament in the last week of Sept. 1955 and was passed by Parliament as the Industrial Disputes (Amendment and Miscelleneous Provision) Act, 1956.

The main provisions of this Act, are the following :—

(*a*) The definition of "workman" has been enlarged and now technical staff and supervisory personnel whole emoluments do not exceed Rs. 500 per month are included in this category.

(*b*) The Industrial Disputes (Appellate Tribunal) Act, 1950 has been repeated and the Labour Appellate Tribunal has been abolished. The absence of an appellate authority may induce a sense of realism among both employers and workers.

(*c*) The Act "sets up three types of original tribunal—Labour Courts, Industrial Tribunal and National Tribunal. The Labour Courts will have jurisdiction to adjudicate on industrial disputes relating to such matters as property or legality of an order passed by an employed under the standing orders, the discharge or dismissal of employees, and illegality or otherwise of a strike or lock-out. An Industrial Tribunal will adjudicate on disputes relating to matters such as wages, hours of work, bonus, rationalisation and retrenchment. A National Tribunal will adjudicate on matters which in the opinion of the Government, involve questions of national importance or which are of such a nature that establishments situated in more than one State are likely to be interested in or affected by disputes.". There is no provision for appeal from any of thes 3-tiers of adjudication machinery.

(*d*) The Act makes certain that factory owners cannot introduce any change in respect of certain specified matters with regard to condition of work without giving the workers concerned 21 days' notice of their such intention. The Act also empowers the certifiying officer and the other authorities to consider the fairness or reasonableness of the standing orders before certifying them. In the past the employer alone was empoweed to apply for the modification of standing orders. The Act also gives power to a worker to apply to the certifiying officer for modification of the standing orders in the same way as the employer.

(*e*) "A notable concession to employer not perhaps so much a concession as a vindication of justice—is the provision that an employer can, during the pendency of a dispute, discharge or punish an employee for any misconduct not connected with the dispute. The employer has in such cases, to pay a month's wages to the worker concerned and apply to the authorities for approval of his action." This is inculcated, to improve discipline in industrial establishment.

"The worst feature of the Act, however, is the power it gives to Government to modify an industrial award. It is with great difficulty that the conflicting interests of employers and workmen are reconciled in an award and it will only complicate metters if the Government has the power to modify it."

This Act has set up machinery for settlement of disputes which is as follows :—

(*a*) **Works Committees.** The Government directs industrial units with 100 or more workmen to constitute works committees. Works committees are joint committees of employees and workers for the purpose of promoting healthy relations between the employers and workers. The Committees attempt to remove causes of friction between management and workers in the day-to-day working of the factory. If they work effectively. many of the sources of conflicts can be eliminated.

(*b*) **Conciliation Officers.** Conciliation officers are appointed by [illegible]ns and industries, to resolve the [illegible] workers. The conciliation officer [illegible] two parties to come to a good settlement of the dispute. In case the conciliation officer fails in setting a dispute, he should report to the Government about his failure, the steps he had taken and the reasons for his failure. The Government will take other steps to resolve dispute.

(*c*) **Board of Conciliation.** The Government may appoint a Board of Conciliation to go into any industrial dispute. The Board consists of chairman who is an independent person and two or four persons representing the management and the employees. The Board reports to the Government about the success or failure of its conciliatory efforts.

(*d*) **Court of Enquiry.** When the conciliation officers and the Board of Conciliation do not succeed to settle an industrial dispute,

amicably, the Government refers the matter to a Court of Enquiry, which may consist of one or more independent persons. The Court investigates the whole dispute and will submit its report to the Government. Then the case will be referred to the Industrial Tribunal for adjudication

(e) *Industrial Tribunals.* There are two industrial tribunals, viz. State Tribunals and National Tribunals. The National Tribunal is appointed by the Central Government for the adjudication of industrial disputes which involve industrial establishments situated in more than one State. The State Government may appoint Industrial Tribunal for the adjudication of disputes relating to wages, bonus, profit-sharing, etc. The State Tribunal will consist of a person of the rank of a High Court Judge. The adjudications of the State and National Tribunals are binding on the parties concerned.

Thus, under the present system of settling industrial disputes, there is scope for removal of disputes (through Works Committees, conciliation of disputes and finally adjudication through tribunals). Apart from this system of settling disputes, joint management councils and Code of Discipline are increasingly more important.

"Judged by the strength of its membership, trade unionism in India has indeed registered a rapid growth especially in the post-Independence period. But even at present it covers an insignificant proportion of the total working class. Also it is still confined to large-scale industry, to unskilled labour and to bigger Industrial Centres." —*Dr. J. D. Varma*

21

LABOUR ORGANISATION

Q. 52. Trace the growth of Trade Unionism in India.

(Calcutta 1978 ; Patna 1976 ; Pb. B.A. (Hons). 1979 : Agra 1981 ; Madras 1980 ; Madurai 1981 ; Baroda 1961 ; Vikram 1969 ; Kuru. 1981 Raj ; 1980 ; Pb. B.A. Hons. 1982)

Or

Trace the growth of the Trade Union Movement in India.

(Pb. M. A. 1977)

Or

Trace the growth of Labour Movement in India.

(Pb. M.A. 1980 ; Pbi. 1979)

Or

Trace the origin and growth of the Trade Unionism in India noting carefully the more recent trends in the movement. *(G. N. D. U. 1980)*

Ans. Birth of Labour Movement. Upto the end of the World War I (1914-18) Indian labour was totally unorganised. The first example of collective action by Indian workmen was in 1884 when Lokhaned called a conference of the Bombay workmen and prepared a memorandum indicating their grievances which he presented to the Bombay Factory Labour Commission of 1884. He laid the foundation in 1890 of the first labour organisation, the Bombay Mill Hands Association. It was only in 1897 that a labour organisation named the Amalgamated Society of Railway Servants was registered under the Indian Companies Act. In 1905 the Printers' Union Calcutta and in 1907 the Bombay Postal Union appeared. In Bombay, in 1910, Kamgar Hitwardhak Sobha was formed. But there was nothing that could be properly called a Trade Union. Reports from factories in the different parts of the country and the Government announcements.

testify to the fact that labourers were weak and in most parts of the country labour unions, strictly speaking, did not exist.

Causes Responsible for the origin of Trade Union Movement. Signs of the actual birth of the trade unionism were in sight at the close of the World War I. The causes responsible for the origin of trade union movement were as follows :—

(1) **First World War.** World War I was responsible for the birth and the rapid growth of the trade unionism. Prices had shot up during the War and there had been no corresponding increase in wages, though mills and factories had amassed huge wealth. The workmen were forced to organise themselves to bargain for wage increase. It was war which made the workmen conscious of the fact that labourers in the West could increase their income and standards of living through greater solidarity and organisation.

(2) **Political Leaders.** Political leaders were also responsible for the establishment of trade unions. The mass movements started by Tilak, Annine Besant and Mahatma Gandhi had profound influence on the working classes. Mahatma Gandhi insisted on settlement of trade disputes by negotiations and peaceful methods before resorting to direct action.

(3) **Establishment of I.L.O.** A more direct cause for the formation of trade unions in our country was establishment of the International Labour Organisation (I.L.O.) and the holding of annual international labour conferences of which India was a founder member. This led to the formation of the All India Trade Union Congress (A.I.T.U.C.), This central organisation of workers was the main inspiration behind trade union movement in the initial years.

(4) **Russian Revolution.** The Russian Revolution of 1917 spear-headed by the Russian workers gave a direct stimulus to the formation and strengthening of the trade union movement in all other countries of the world, including India.

Birth of Genuine Trade Union. The first proper labour union named Madras Labour Union was started by B.P. Wadia in 1918 which a was great landmark in the history of trade unionism in India. From Madras the movement extended to Bombay. The period 1919-21 experienced considerable progress of the movement. The labourers felt the value of organisation and effectiveness of the weapon of strike.

The early trade unions were only strike committees and were either dissolved after the strike or remained inactive till next strike. But the movement showed signs of permanence and vitality.

In 1920 the All India Trade Union Congress was formed to co-ordinate the activities of the individual labour unions and to send labourers' representatives to the International Labour Conferences.

But the trade union movement suffered from various disabilities. According to the Indian Penal Code (Amendment) of 1913, the Trade Unions were not legal bodies. The union leaders who induced workers to break their contracts in furtherance of a trade dispute were liable to be sued in civil courts and might be liable to criminal prosecution. A decision of the Madras High Court in 1920, giving an injunction, restraining the labour union officials from inciting the workers to go on strike and thus break the contract, showed the dangers attendant on even for legitimate labour union activities and emphasised the requirement for legislative protection. M.N. Joshi, put the cause of labourers and moved a resolution in the Central Legislative Assembly in 1921, in order to obtain legal protection for the labour movement. But owing to the powerful opposition of the employers nothing was done till 1926 when the Trade Union Act of 1926 was passed.

Trade Union Act of 1926. Under this Act registration of labour unions was not compulsory but only registered unions could enjoy the privileges given under the Act. Seven or more members could apply to the registrar of unions for registration. Each province was to have a registrar of labour unions. The labour unions were to keep a proper list of the union members. The labour union funds were to be spent only on definite labour union objects. They were to submit their accounts to regular audit. At least 50% of the office-bearers were to be employees in the particular industry. A separate fund was to be formed from voluntary contribution of the basis of 'contracting in' to be utilised for political objects. Registered trade unions acting in furtherance of legitimate trade union purposes were granted immunity from criminal and civil liability. Trade unionists so acting were protected from civil liability in respect of acts merely on the ground that such acts induced breach of contract and interference with trade. The registration of trade union enhanced the status of the union before general public and the employers. It gave them a legal status as well as respectability of the movement. This act was a landmark in the history of the trade union movement in the country.

In order to remove certain doubts and ambiguities regarding the powers of appeal against the Registrar's decisions the Trade Unions Act was amended in 1928.

From 1926 onwards. From 1926 onward the Trade Union Movement has made a very rapid progress. At the end of 1929, there were 87 registered trade unions claiming 1,13,300 members, while in 1932 there were 131 registered unions with a membership of more than 2,35,000. The year of 1929 witnessed a split in the All India Trade Union Congress. In 1929 radical labour leaders got hold of the All India Trade Union Congress. In 1929 at the Nagpur Session of the A. I. T. U. C. resolutions were passed which favoured of the Royal Commission on Indian Labour, affiliation of the Trade Union Congress to the League against Imperialism and [illegible] etc. Twenty four labour unions le[illegible] M. N. Joshi, Diwan Chaman Lal, C[illegible] from the Trade Union Congress and formed a new Trade Union Fede-

ration in order to co-ordinate the activities of the non-Communist trade unions in India. This split gave a great set-back to the labour movement.

In Bombay, in 1931, the Trade Union Unity Conference was held. In 1933, the National Federation was formed. This was amalgamated to the IndianTrade Union Federation in 1934. In 1937, the labour sub-committee of the Gandhi Seva Sangh started an organisation of labour on Gandhian principles. At a joint session of the All India Trade Union Congress and the National Trade Union Federation in 1938 it was decided to amalgamate these two bodies into a Central organisation with 55 representatives on the General Council. In spite of their apparent unity there was not much unity.

We find that the trade union movement was always plagued by splits and rivalries. During this period, there were series of splits in the trade union movement but ultimately first (before World War II), unity in the movement was brought about. The 1930's started with a climate which was not favourable to the growth of the trade union movement. The prosecution of the Communists involved in the Meerut conspiracy case, the failure of the Bombay textile strike of 1929 the great economic depression of 1929-30 and the widespread retrenchment of workers—all these brought a full to the trade union movement in our country.

During Second World War and After. During the World War II, the rising cost of living complled the labourers to join into unions. The number of unions and their membership increased a lot. All the political parties started taking great interest in the labour movement. As a result of these there was a remarkable progress. In 1946-47, there were 1,729 [illegible] The membe [illegible] Inspite of all these developments even the financial position of the organisation continned to be poor. However, the War created an emergency and [illegible] he question of participation in [illegible] Russian Communist Party wa [illegible] Nazis, while national leaders wanted to strengthen the national movement to over- [illegible] o a sharp ideological rift and [illegible]

The Trade Union Congress adopted an attitude of neutrality M.N. R [illegible] organisation known as the [illegible] full support of Indian labour [illegible] zarial Nanda's leadership a Central Organization of trade union based on Gandhian ideology, called the Indian National Trade Union Congress (I. N. T. U. C.) was set up. The starting of the World War II gave an impetus to the trade union movement.

Trade Union Movemement after Independence. Inependence brought the partition of the country. Independence brought confusion in the [illegible]s of industry, trade and labour. While industrialists were dreaming

of freedom to exploit resources, workmen and trade union leaders were anticipating total nationalisation of workers, ownership and management of industries. The country was in the grip of growing unemployment. The high hopes of the workmen for getting higher wages, better service conditions and amenities from the Government were shattered. The labourers found it necessary to struggle hard even to retain what they had obtained earlier. A series of strikes swept the country and the number of striker and man-days lost during the period were highest ever recorded. The Government tried to eliminate these through suitable legislative steps for amicable settlement of industrial disputes.

As pointed above the trade union movement has always been plagued by a series of splits. Attempts were also made to bring unity. Soon after Independence the trade union movement was split by the starting of three central organisations. The Indian National Trade Union Congress (I. N. T. U. C) was started in 1947 and was controlled by the Congress Party. The Hind Mazdoor Sabha was started in 1958 by the Praja Socialist Party. The United Trade Union Congress (U.T.U C.) was formed in 1949 by some radicalists. All these labour organisations have been working for the betterment of labour. However, there was no unity between them nor did they follow common policies.

In 1948, the Trade Union Act was amended to provide for compulsory recognition of a labour union by employers under the orders of a Labour Court provided that Union's total membership should not be less than 15% of the total number of persons employed in the industry. It had several drawbacks. It did not restrict recognition to the largest of the rivals unions nor did it make any effective arrangement for ascertaining the membership of the contesting labour unions.

In the period since independence the movement has registered still further development, especially because of the inflationary situation which has characterised the whole period. Accordingly the progress made during the last 30 years has been indeed remarkable. This is quite obvious from the following few figures—In 1939, the total number of registered trade unions was 667 out of which 450 submitted returns which showed a total membership of 5·1 lakhs. In 1949-50 for the Indian Union there were as many as 3, 783 registered trade unions. Out of these 2,216 submitted returns and their membership stood at 19.77 lakhs. Thus the number of registered trade unions rose 5½ times in ten years. The further progress since then may be judged from the figures for 1964-65, the number of registered unions stood at 11,900, of these 7,200 submitted returns and had a membership of 39 lakhs.

legislative measures passed by the Central and State Governments to facilitate collective bargaining.

In 1965-66 the membership of such central organisations totalled 42·55 lakhs. Of these the biggest is the Indian National Trade Union Congress. Though formed in 1947, it has now grown into the largest representative organisation accounting for more than half the total membership of the central organisations (20·2 lakhs). Then comes the All India Trade Union Congress (Communist-led), which accounts for a little less than ⅓ of total membership of the central organisations (12 1 lakhs nearly). The Hind Mazdoor Sabha (8.1 lakhs) and the United Trade Union Congress (2.2 lakhs) account for the rest of the membership.

In a 1981-82, there were 27,690 registered trade unions, of these 8460 submitted returns and had a membership of 51.10 lakh.

In few other countries has such a rapid progress been made as in India since 1939. The movement is now fairly widespread. The unions are now no longer mere strike committees. They are better organised, are more permanent in character, enjoy great prestige and wield great influence. Some of their leaders can be compared with the leaders of any organisation in the West.

Q. 53. *What have been the principal weaknesses of Trade Union Movement? What measures do you suggest to strengthen it?*

(*Kurukshetra 1982; Baroda 1978; Pbi 1978*)

Or

Analyse the factors responsible for the weakness of the Trade Union Movement in India. Offer suggestions for strengthening the movement.

(*Meerut 1981; Karnatak 1978; Rajasthan 1978; Lucknow 1978, Jodhpur 1978*)

Or

Discuss the main problems of Trade Union Movement in India and suggest suitable solutions of those problems.

(*Pb. B. Com. 1982; Mad. 1980; Agra 1978*)

Or

Account for the slow growth of Trade Union Movement in India. Give suggestions.

(*G. N. D. U. 1982 Supp*)

Ans. There have been a number of limitations which act as handicaps to a faster development of the Indian Trade Union Movement. These handicaps or the defects of the trade unions may be broadly studied under the following ten heads :—

(1) **Small Size of Trade Unions.** Since independence the increase in the number of labour unions is much greater than the increase in their membership. This is indicated by the fact that in 1947-48, the average membership of the trade unions was little more than 1,200 but in 1981-82 it came down to only 700. This shows the fact that there has been a much large increase in the smaller trade unions. These small unions are not in a position to carry on collective bargaining and negotiations with the employers. Many of them cannot discipline among their own members. Workers can influence

the policy of the Government if their unions are strong. But in our country it seemed that majority of the unions are so unorganised that their voice neither reaches the employers nor the State. These small unions are regarded as "strike committees" as most of them are active only when there is a new list of demands presented by the labourers to the employers. As soon as the demands are met, most of these unions become inactive again.

In 1955 the Jana Sangh formed the Bhartiya Mazdoor Sangh. Again as late as 1970, the CPM set up a separate union called the Centre of Indian Trade Unions (CITU)

(2) **Limited Membership.** The Indian labour unions are mostly confined to the urban industrial areas and, therefore their total membership is a very small percentage of the total number of the workers in the country. The movement has not penetrated into the rural areas. Even in the organised sector, a large number of labourers are not the members of any trade union. For instance, in the cotton textile industry only 12·5% of the workmen are the members of trade unions. The percentage is much smaller in some other industries, e g , 5% in the primary industries. It is only in the Iron and Steel Industry that the membership is more than 70%. On the whole, the total trade unions membership is only about 30% of the whole labour force.

(3) **Multiplicity and Rivalries.** Another bane of labour organisations in the country is the multiplicity of and rivalry among unions in most of these industries where this movement exists. Partly due to the slow-expanding membership, and partly because different political parties have extended their base into it, as also the illiteracy of workers that the working of unions is infested by consideration of the politiking of various unions, their leaders and political parties that control them. In an atmosphere vitated by pulls and pressures of various kinds, even small and ineffective unions in the same industry or factory jump into the fray, resulting in intense warfare among workers and the total neglect of legitimate functions by the unions.

(4) **Defective Administration.** Even though the scope of their activities is narrow, and they seem to function by fits and starts as if these are temporary bodies, yet their administration for these limited activities leaves much to be desired. V. V. Giri describes the faulty administration of the trade union organisation to the following three major defects : (i) predominance of small-sized unions, with good many having small membership not exceeding 500 ; (ii) poor finances due to the small size as well as the low subscription rates ; (iii) and absence of whole-time paid officers. With no proper conduct of the affairs of unions, the functioning of the workers' body, cannot be healthy and efficient.

(5) **Meagre Resources.** The financial resources that are available to the labour unions are meagre. The result is that the labour unions cannot afford to employ full-time staff to carry on their day-to-day work.

The scarcity of resources of the labour unions also results in the inabilty of unions in undertaking various welfare measures for the workers e g., schools ; libraries ; health centres etc. Hence the efforts of the trade unions are mostly confined to militant activities.

(6) Migratory Character. Indian labour has been traditionally regarded as migratory. Many of the industrial labourers in India still have their farms and houses in villages. Hence they go back to their villages during the harvest and come back to the industries during the off seasons. If the labour unions are strong enough to ensure reasonable wages to the workers, the link with villages can be broken. This would reduce the absenteeism in the industry and bring about greater production and prosperity to the country.

(7) Heterogeneous Nature of Labour. The composition of our labour is a heterogeneous mass divided on the basis of caste, creed, class, religion and race, etc. As sentiments of labour towards these factors are very strong, labour unions are often divided on the basis of these factors.

(8) Attitude of the Employers. The employers in India are hostile towards trade unions. To break the unity of trade unions, they often adopt a number of unfair means like employing spies, goondas and other strike-breakers to sabotage the union activities. The employers also form rival trade unions who are in favour of management policies. The employers bribe the trade union leaders and nip the strike in the bud.

(9) Faulty methods of Labour Recruitment. Till recently, the recruitment of labour in industries was done through intermediaries like jobbers. These intermediaries did not like the trade unions. Hence they discouraged the workers from becoming union members. Apart from this, a large number of workers is initally employed as casual labourers on purely temporary basis. This results is an excessive labour turn-over in industries.

(10) Inadequate Leisure. Many of the labourers do not take much interest in the trade union movement because they do not have sufficient time for such activities on account of the distance between their factories and homes. The long hours of work required to be put in by the workers also sap their enthusiasm. By the time labourers reach their houses, they are exhausted and have hardly any enthusiasm for taking part in the trade union activities.

(11) Illiteracy. Majority of the labourers in our industries are illiterate. They are not able to understand the complicated laws by which they are ruled. This results in the domination of outsiders as trade union leaders, who do not have technical knowledge of the industries concerned. Many of them fail to have a sympathetic outlook towards labour problems.

(12) Outside Leadership. The leadership of the trade union move- has been provided by professional politicians and outsiders. This

was understandable in the past, since workers could not organise and lead the movement themselves. Whatever may have been the reasons in the past, it is highly important that the working class movement should be guided by persons from the ranks of the working class.

(13) **Neglect of Welfare Activities.** Most trade unions have concentrated on the organisation of strikers and promoting the welfare of the workers through bargaining with the employers. They have ignored beneficial activities, like the provision of medical and sickness relief, help to dependants of diseased members, educational and cultural activities, etc. In other words, the trade unions have not tried to impress and secure the loyalty of the workers.

(14) **Political Influence.** Almost all the political parties of India have busied themselves in the labour movement. As usual, the politicians are notorious for giving tall promises. They induce the workers to organise a "*morcha*" and even go on a strike or a "*bandh*" or a "*gherao*" in order to serve their own selfish interest. This result in fragmentation of the trade union movement into hostile camps. Consequently, the movement lacks unity and solidarity. Many of the leaders are opportunists and they have their own axes to grind. Trade unions in the hands of such parties cannot lead to a healthy contribution to the national interest of the country.

Suggestions for Removing the Defects. There is need for a considerable re-adaptation in the outlook, functions and practices of unions to suit the emerging conditions. The trade union leader's duty is to prepare the union to make them an essential and integral part of the industry. Generally the following suggestions are made :—

(1) **Amalgamation of Small Trade Unions.** Small-sized trade unions in India suffer from a number of disabilities like lack of leadership, organisation, finance etc. They weaken the movement and undermine the confidence of the labourers in trade unionism. Such trade unions should be willing to lose their separate identity and merge themeselves with other trade unions in order to gather strength and stability.

(2) **One Union in One Industry.** There is a multiplicity of trade unions in the same industry. This leads to unhealthy rivalries which ultimately axe the root of the labour unionism. The presence of such trade unions retarded the interests of workers. To achieve the aim of "*one union in one industry*", it is necessary that the trade unions should be divorced from the political parties.

(3) **Remoral of Inter-Union Rivalries.** In order to reduce the inter-unions rivalries, all the trade unions in India agreed to a Common Code of Conduct in 1958. The basic principles of the Code are : (i) Every worker in a factory will have the right to join the union of his choice. No coeriosion will be used by any trade union. (ii) There will be no dual membership of unions. (iii) There will be democratic elections of executive bodies and office-bearers of trade unions. (iv) There will

be regular and democratic functioning of the unions. (v) Ignorance and backwardness of the workers will not be exploited by any organisation. No organisation will make excessive demands. (vi) Casteism, communalism and provincialism will be hated by all unions. (vii) There should be no violence, intimidation or personal vilification in inter-union dealings. Unfortunately, this Code of Conduct has been accepted in theory but not in practice. The implemenation of this Code is very necessary in the interest of healthy development of the labour movement. For this purpose, the Government should appoint an administrative authority.

(4) **The Presence of Outsiders.** It is necessary that the number of outside leaders of the trade unions should be reduced. In this context, we refer to the Indian Trade Unions Bills, 1950, which provided that the number of the outsiders in any trade union should not be more than 4 or 25% of the total number of executives, whichever is less. Unfortunately, that Bill lapsed because the period of the term of the Provisional Parliament came to an end in 1950. We suggest that the Government should revive that Bill. Such a step would give a chance to the labourers to occupy position of leadership in their own trade-union. In the recent Afro-Asian Labour Conference, India agreed to the principle of allowing only 50% of the management-from outsiders. Some countries like Sri Lanka wanted that it should be only 30-35%.

(5) **Training of Trade Union Workers.** The union must be led by the workers who have good knowledge of their particular industry, finance, law, economic forces as work, business principles and psychology. They must have calibre and mental equipment equal to those of the employers sitting opposite to them at the bargaining table. To encourage workers as leaders, it is necessary to give facilities of training to the workers. Hence colleges like Ruskin College at Oxford should be opened in India. It is heartening to note that the Government has made a beginning by starting the Asian Trade Union College at Calcutta. But one such college is not enough and at least one college in each of the industrial centres of the country should be started.

(6) **Place of Politics.** The labourers should not permit themselves to be stated in the game of party politics played by the political leaders of trade unions. This does not mean that the workers should not participate in the political development. All that we say is that the workers, as a group, should remain outside the political movement. As individuals they can follow any political party of their choice.

(7) **Varied Trade Union Activities.** Trade unions should enlarge their operations in the field of health, recreation, education, housing and other welfare activities. They should conduct frequent meetings, give discourses in order to educate their members. They should form not only the 'strike committee' and 'action committee' but should also inculcate in the workers a sense of discipline and a sense of responsibility.

(8) Responsible trade union leadership. Personal integrity, patience, love of liberty, [illegible] courage are some of the qualities, a trade [illegible] Trade union leaders should also have [illegible] constitutional and legal rights available to the unions. They must try to make use of these rights to secure and promote workmen's interests.

(9) Duties and not Rights only. It is high time that the union leadership inculcates in the workmen sense of responsibility to do a full day's work for a fair day's wage. The unions should make every workman [illegible] t his duties and responsibilities and then [illegible] man should be made to feel that he is [illegible] way a prosperous State. Demands and rights are important no doubt but equally important are the duties.

(10) Recognition of Trade Unions. If the labour unions are recognised by the employers, they get a number of privileges under the *Trade Unions Act of 1947. It is for this reason advocated* that there should be compulsory recognition of trade unions by employers. In case, where the number of trade unions is more than one, the employer should recognise that union which has maximum membership. The Trade Union Act of 1947 has also recognised the principle of compulsory recognition of representative trade unions by employers. In 1959, the Indian Labour Conference agreed that where there was only one union, the employer must recognise it even if it did not fulfil the minimum condition of 15% membership or that of one year's experience.

(11) Finance. Usually Indian trade [illegible] membership fee for their members in [illegible] Many of them fail to collect even t[illegible] trade unions do not terminate the [illegible] To bring about financial liability [illegible] unions the 17th Indian Labour Conference of 1959 suggested that trade unions should charge a minimum subscription fee of 25 paise per month. This has been further raised to 50 paise per month. The minimum fee has been accepted by all the Trade Unions in the theory, but in practice, many of the unions still continue to collect lower and irregular amounts.

(12) Need for Comprehensive Legislation. There should be a comprehensive legislation which should provide not only for registration and [illegible] also for protection and development of [illegible] The present Trade Unions Act was passed [illegible] since then without any major modifications. It provides mainly for the conditions governing the registration of trade unions, the rights and privileges accorded to registered trade unions, the obligations to which a trade union is subject to after registration, necessary procedural provisions of administration and penalities. These provisions are not enough. It is necessary to incorporate a number of other provisions that were suggested in the Trade Union Bill of 1950. Some of these provisions were in respect of

the number of outsiders in an executive committee of a trade union, inspection of registered trade unions, maintenance of a list of members by unions, maintenance of proper books of account by unions, etc. In order to incorporate all these provisions, it is advisible to pass a new all comprehensive trade union legislation.

Q. 54. State briefly the steps which have been taken in India since Independence to improve conditions of life and work of industrial labour.

(Kuru (Hons.) 1973)

Or

Give a critical estimate of Indian labour policy since independence.

(Pb. B. Com. 1972 (Sept.) ; Jammu 1972 ; Bombay 1971)

Ans. *Hints.* Reference may be made to :

(*i*) Factory legislation fixing working hours and providing for the various amenities in the factories.

(*ii*) Fixation of minimum and fair wages.

(*iii*) Measures of social security.

(*iv*) Trade union legislation.

(*v*) Legislation for prevention and settlement of disputes.

(*vi*) Share in management.

(*vii*) Numerous measures of labour welfare.

"It is true that we owe to it (foreign capital) the development of our railway, tea, coffee and rubber plantations, coal, mica, copper, jute and a number of other industries, but we also owe to it extreme centralisation of industrial power in India."
—*Dr. Gyan Chand*

22

FOREIGN CAPITAL

Q. 55. What has been the role of foreign-capital and management in India's industrial development upto 1947 ?

(Madurai 1981 ; Mad. 1982 ; Kuru. 1971 ; Bom. 1978 ; Osmania B. Com. 1980)

Or

Describe the part played by foreign capital in the economic development of India.

(Pbi. B. Com. 1982 ; Pbi. 1978 ; Jodhpur 1977, Kuru. 1981)

Ans. When the Britishers did establish their Govt. they did find large amount of unused resources in India. They tried to make India a source of raw-material supply to U. K. Moreover, at that time India lacked both enterprise and capital. Hence the earlier growth of industries in India was with the help of foreign capital. The Britons invested their capital in tea, rubber, and coffee plantations and in the railways. The first investments in India were in raw-material supplying industries and in the transport industries. Foreign capital predominated in jute mills of Bengal, woollen mills and tanneries of Kanpur and the big engineering works and the coal mines. Besides foreign capital dominated in banking, plantation, trading, insurance and shipping enterprises.

Thus, foreign capital came to country in the wake of foreign domination. It was invested in jute, railways, trading, tea, and coal mining industries. The British people invested their funds in those sectors which brought for them a high rate of return and which strengthened their hold in India or which gave goods for export. They were least interested in our industrial development as such and whatever development took place was only incidental to their activities. But there is no doubt that India would not have developed, even though to

a limited extent as it, without the help of British capital. But if British capital were invested with the object of developing the productive resources of the country in a systematic manner, the development would have been much greater.

A very bitter feeling has developed against foreign capital because:

(a) We looked on helplessly while foreigners earned huge profits and obtained all types of concessions from the Government which favoured foreigners and not us. This discrimination against us was naturally resented.

(b) Foreign capital provided employment mostly to foreigners and this was resented to by our people. In our own country we saw the Britishers and other foreigners getting all the advantages to which we ourselves were entitled.

(c) As Dr. Gyan Chand pointed out, "It is true that we owe to it (foreign capital) the development of our railways, tea, coffee and rubber plantations, coal, mica, copper, jute and a number of other industries, but we also owe to it extreme centralisation of industrial power in India, the nature and extent of which are not as widely known as should be: the constitutional safeguard against what is euphemisitcally called discrimination, is also due to this factor. India has her industrial oligarchy and inspite of the entry of Tatas, Birlas and more recently of Dalmia and Walchand into the field, they are mostly British. Andrew Yule, Bird, Shaw Wallace, Octavious Steel and a dozen of other foreign companies dominate the industrial economy of India and control finance, jute, cotton, coal, tea transport, electricity, engineering and many other enterprises." This concentration of power which our businessmen have also copied has resulted in much harm to our country.

(d) The foreign enterprise took full advantage of the grant of protection in 1923 and established the 'India Limited' concerns in the country to take full advantage of the protection granted. This protection was given for encouraging Indian enterprise and it was resented if foreign enterprise also took advantage of it.

"The External Capital Committee (1925) recommended that [illegible] capital should be encouraged to come to India, the [illegible] control over foreign undertakings as [illegible] of concession given to industry come [illegible] Where the concession is general, as in the [illegible] ticable to make any discrimination, but where definite monetary assistance, such as a bounty, is given to a particular concern, care should be taken to safeguard the Indian interests. Concessions should not be given to foreign companies unless reasonable facilities are provided for the training of Indians. In the case of public companies, the company should be registered under the Indian Companies Act, with a share capital expressed in rupees and such proportion of the directors as Government may prescribe should consist of Indians.

Where the concession is granted to expoit a wasting asset, such as mineral rights, no definite rules can be prescribed." But the Government of India did not accept these recommendations and foreign capital continued to get all the advantages of protection and other concessions granted to industry by the Government of India.

Exact statistics are not available about capital investment in India in the earlier periods. According to one estimate, the amount of foreign capital invested in India between two Great Wars was £600 mn. and according to another estimate to £800 mn. The Associated Chambers of Commerce in their evidence before Simon Commission put it at £1,000 mn. In 1914 foreign capital in India amounted to £298·4 mn. and in 1932, £831·0 mn. Prof. B.P. Adarkar estimated that the foreign capital in India before the War was between £800 and £1,200 mn. Prof. B. R. Shenoy put it £2275 mn. in 1945.

According to a survey conducted by Reserve Bank, the total amount of foreign investments on the 30th June, 1948 was Rs. 3204 mn. of which 63% was supplied by U. K. According to another survey of Reserve Bank it was Rs. 4,530 mn. in Dec., 1953. The survey showed that between 1948-53 foreign investments rose by Rs. 1,320 mn. Over 85% of this increase was accompanied by control. India's long-term foreign liabilities amounted to Rs. 10,353 mn. (4,530mn. private+5,823 mn, public sector). According to an article in May issue of R. B. Bulletin (1961) the net foreign investment in the private sector increased by Rs. 1,530 mn. from Rs. 4,561 mn. in 1955 to Rs. 6,107 mn. in 1959.

We find that volume of foreign private capital participation in India is rather meagre is obvious from the fact that out of the total investment of Rs. 70,000 mn in the Second Plan, foreign investment amounted to Rs. 1500 mn. During the Third Plan, an inflow of only Rs. 3000 mn. of foreign capital was anticipated. This was less than even 3% of total plan outlay.

But in the end of Dec., 1960 World Bank had granted loans to India amounting to Rs. 2,180 mn. for public sector and Rs. 1,050 mn. for private sector, totalling to Rs. 3,230 mn.

In recent years very substantial amounts of capital have been received by India notably from U. S. A., U. S. S. R., U. K., West Germany, Canada, and Japan. The following table will depict External Assistance received during Five-year Plans.

Plans	Total Investment in Public Sector	Foreign Aid	% of total Outlay
First Plan (1951-56)	Rs. 20,120 mn.	Rs. 2,930 mn.	10·1%
Second " (1956-61)	" 46,000 mn.	" 11,000 "	21·7%
Third " (1961-66)	" 75,000 mn.	" 24,550 "	28·0%
Fourth " (1969-73)	" 1,61,600 mn.	" 42,100 "	12·9%
Fifth " (1973-78)	" 39,303 mn.	" 58,340 "	14·9%

The Sixth Plan, however, strikes a happy note with the provision of external assistance at a reduced level of 9% of the total public sector outlay.

The overall external assistance utilised till March 1982 to'alled Rs. 292·45 crores.

From the picture of foreign aid pointed above, a few inferences can be drawn (1). The amount of foreign aid received is considerable. *The extent to which it has contributed to the capital formation of the* country is evident from the additions made to domestic saving. This is shown in the following Table which gives the percentage contribution of foreign saving as also that of domestic saving to the aggregate investment in some selected years.

Estimates of Foreign Resources *(Per cent of Net National Product at Current Prices)*

Item	*1950-51*	*1970-71*	*1973-74*	*1974-75*	*1975-1976*	*1976-77*	*1981-1982*
(1) Inflow of foreign resources (net)	—	1.2	0.7	1.0	0.6	−1.4	(—) 1·2
(2) Domestic saving (net)	*5.5*	*10.1*	*13.2*	*13.8*	*15.5*	*15.7*	*15.9*
Aggregate investment (1+2)	5.5	11.3	13.9	14.8	16.1	14 3	14.6

(2) Another fact that emerges is that a major part of the aid has been made use of for the building of infrastructure, for industrial development and basic metals. Besides, the aid for agricultural development and for import of food has been considerable. An unfortunate item is the aid taken for debt relief. Obviously, not being able to repay debts when fell due, India has used aid to meet this burden. Since a large part of aid is in the form of tied loans, it has meant an expensive development, apart from causing an increasing burden of debt servicing.

(3) An important noticeable feature is that a very substantial part of the aid has come from consortium countries. And among the

countries, the USA is the most mportant donor, followed by the UK. The OPEC group has shot into prominence recently. Of the two world institutions (IDA is an associate of the World Bank), the IDA which extends help on soft conditions has contributed more.

Thus foreign aid has really helped the country. Many countries and institutions have contributed to this But it needs also to be remembered that the use of foreign aid is not an unmixed blessing.

Government's Policy towards Foreign Capital since Independence.

The Industrial Policy Resolution (1948) put some restrictions on the employment of foreign capital. These restrictions, together with the threat of nationalization, which (1948 Industrial Policy) contained unnerved foreign investor and affected the flow of foreign capital.

Prime Minister's statement on Foreign Capital in April 1949. To remove the fear of foreign investors and to increase the flow of foreign capital, the Prime Minister made 3-point statement in the Assembly in April, 1949. This declaration gave the following important assurances to foreign investors: (*a*) the general industrial policy of the government will make no discrimination between foreign and Indian enterprise; (*b*) reasonable facilities, depending on foreign exchange position, will be granted to foreign investors for remittance of profits and repatriation of capital; (*c*) there is no immediate change for nationalization of enterprises; but even if nationalization is resorted to fair compensation will be given to foreigners.

These assurances by Prime Minister stepped up the flow of foreign capital into India. However, Govt.'s neutral foreign policy dampened the flow of foreign capital from America in the initial stages.

The beginning of development planning and the successful execution of the First 5-year Plan built in a good deal of economic stability and helped us to get foreign capital both from private, public and international agencies. During the initial period of planning, our Government endeavoured to obtain as much 'equity capital" as possible from foreigners. This "equity capital" was free from political ties and [illegible] ital contributed by Indians for the [illegible] which satisfied national interest [illegible] l planning. Sen-Raleigh, Birla-Nuffield, Tata-I. C-I. are examples of joint enterprises in which foreign "equity capital" did supplement Indian capital.

Foreign Exchange Shortage and the recent attitude towards Foreign Capital. The foreign exchange crisis into which the Second Five-year Plan ran, within the first 2 years of its launching, brought about a change in our attitude towards foreign capital. On July 4, 1957, the Prime Minister declared, "We have always welcomed foreign capital in the past and we welcome it in the future." Since then, Government spokesmen repeatedly declared that condition in India was favourable to the foreign investors and, because of a generally dynamic atmosphere

of growth, the chance of earning profit from investment was brighter. The tax payable by the foreign investors was made to be determined on his Indian income and not on his world income. Moreover, under any calculation, the incidence of tax payable by the foreign investor did not exceed 70%. Lastly, foreign industri[illegible] turing company in India were made [illegible] themselves. Hitherto, they could on[illegible] prenuers who alone were given the required "letter." But the foreign investor will have to raise subscription from the Indian public and also from Indian financial institutions and will have to float an Indian Company to which will be given the manufacturing *licence*. The Government had permitted the Burmah Shall Co. (a *British concern*), and the Standard Vacuum Oil Co. and Caltex Co. (U.S. *concerns*) to set up oil refineries in India without the major control in ownership and management being in the hands of Indians. They also gave them several other concessions like 25 years' guarantee against nationalisation, etc. (Now all these three companies have been taken over)

It is a fact that in times of foreign exchange crisis it is a great advantage if foreign investment goes into export promotion or import saving lines. Now a large amount of foreign business investment is going into our import-saying industries. This is, of course, good. But for the Government the primary *criterion*, for selecting between different types of foreign business investment should be in terms of [illegible] *oduct in relation to* [illegible] *the Third Plan had* [illegible] would come to the country by way of private foreign investments. The actual inflow had been at the 5% of the anticipated rate.

Besides private capital flow, foreign capital comes in the form of [illegible] from international institutions. The [illegible] international agencies is the World Bank. [illegible] for the Second Five-year Plan upto August, 1960, came upto Rs. 14,840 mn. Of this amount, *57·7%* came from the U.S., and the World Bank lent Rs. 3,150 mn. *Out of* Rs 3,150 mn. advanced by the [illegible] 33% of the amount was lent to t[illegible] assistance to India amounted to r[illegible] 1963. In this connection it sho[illegible] external assistance authorized for [illegible] upto the end of March, 1963, w[illegible] assistance amounted to Rs. [illegible] Rs. 3,240 mn. during 1962-63 or a total of Rs. 5,740 mn. over the first two years of the Third Plan. With loans and grants totalling Rs. 28,000 mn., the U.S.A. tops the list of nations helping the Indian people in achieving their goal of self-sustained economic growth. When the Third Plan was drafted external assistance for the plan period was estimated at Rs.24,550 mn. Since then the situation altered because of

the Chinese aggression and for defence and development purposes, more assistance became necessary. In April 1965, the Aid-India Consortium pledged Indian foreign assistance amounting to Rs. 4,100 mn. for the final year of the Third Plan.

Foreign private investment in India has declined in recent years. It was hardly Rs.- 10-12 crores a year as against the Fourth Plan assumption of Rs. 60 crores a year.

In Nov. 1961 Govt. of India announced a set of new norms and procedures for speedier disposal of applications for foreign investment and collaboration in industry. The Govt. released a list of industries in which foreign equity participation was to be allowed, another list of industries in which only technical collaboration was to be allowed and still another of industries in which neither of them was considered necessary.

A Foreign Investment Board was set-up in Dec., 1968 as a central authority to deal with all aspects of foreign investments and collaborations and to expedite decisions on proposals for foreign investment.

While the Prime Minister's statements in 1949, in 1956 and in 1980 Industrial Policy govern the official attitude towards foreign capital, the government has given concrete shape to these broad lines in terms of specific guidelines in respect of functioning of foreign concerns and capital in the country.

Although foreign concerns (*i.e.*, foreign companies, their branches or subsidiaries, or companies in which more than 50 per cent of the paid-up equity is held directly or indirectly by foreign companies, their branches or subsidiaries or by foreign nationals or non-resident Indians) are eligible to participate in and contribute to the establishment of industries in the same manner as the larger industrial houses, yet it is provided that in the event of their expansion an increasing proportion of shares will be owned by Indians.

For example, the Government in its notification of February 1972 had in respect of dilution of foreign capital, laid down the following: that companies with foreign holdings exceeding 75 per cent will raise 43 per cent of the estimated cost of expansion by issue of additional equity capital to Indians only; the corresponding proportions for companies with foreign holdings exceeding 60 per cent but not exceeding 75 per cent, and those with foreign holdings exceeding 51 per

cent but not exceeding 60 per cent will be 33.3 per cent and 25 per cent respectively. Thus the aim of this is to ensure part ownership of foreign concerns by Indians.

To conclude, one may observe that the policy of the government in respect of foreign capital taking the form of foreign concerns and collaboration—both in investment and technical know-how—is quite liberal. At the same time, it specifies broadly the fields and the areas where its contribution can be of importance to the country. Besides, the policy places restrictions and lays down conditions which ensure an increase in the share of Indians in these enterprises. Further, all this use of foreign capital is conceived as something which will be utilised to develop indigenous capabilities so as to promote the Fifth Plan objective of self-reliance.

"It (discriminating protection) was all discrimination and no protection."
—*Prof. Adarkar*

23

TARIFF POLICY

Q. 56. Examine the Tariff Policy of Govt. of India between 1850 and 1921.

Or

Bring out the salient features in the history of Tariffs in India from 1750-1939.

Ans. Tariff Policy under the East India Company's rule.

Under the Company's administration, upto 1846, there were large variations in the custom laws of the different provinces.

In Bengal the British got power, all articles passing through the sea-ports had to pay duty of 2·0%. The Britishers continued the rates until 1797 when the general import and export duty was increased to 3·5%. In 1810, it was again increased to 5%. In 1811 a great change was made. If the British staple manufactures came to India in English or Indian ships no custom duty was to be charged. On the other hand, the duty on English products was lessened to 2·5%. The non-British articles had to pay 5% custom duties. Later on, the duty on non-British goods were lessened to 3·5% if these goods were imported, in English ships. This policy was aimed at promoting English industry, trade and shipping.

Tha Government of Bengal decided to bring uniformity in tariffs and in 1836 an Act was pas [illegible] subjected to 3·5% duty if ca [illegible] goods had to pay 7% if imp [illegible] in foreign ships. The duty on woollen articles was only 2·0%.

Bombay and Madras followed the policy of Govt. of Bengal. In 1845, the general rate of import duty was increased to 5%. Raw-materials required for the Indian cotton industry was subject to a duty of 3·5 only.

In 1846 the Court of Directors determined the principles on which the custom duties of India were to be fixed. There were the abolition

of export duties on stapple goods of India with the exception of the duty on indigo, abolition of the duties on trade between the Presidencies and abolition of double duties on good carried by foreign ships.

Accordingly, in 1850, discrimination *was ended in the shipping.* But the duties on foreign articles were 200% the duties on British articles. Inland duties were also finished.

Tariff Policy under the Crown upto 1894.

The *military* expenses made by the Govt. of India to demolish the mutiny caused a heavy financial strain on the Govt. Some measures had to be taken to augment the Govt. resources. Consequently the duties were raised in 1859. Under the Tariff Act, 1859, the general *import duties* were raised between 5% and 10%. Import of machinery was duty free Cotton thread, twist and yarn were to pay 5% *ad-valorem.* The general rate of export duty was 3%. Sugar, tobacco, cotton and raw silk, etc were exempted from duty. At the same time, *the different rates of foreign British goods were abolished. These provi*sions of the Tariff Act of 1859 violated some of the principles of the Home Government and there was criticism against the Act. Therefore, an Amendment Act was made in 1860.

Under the Act of 1860 goods originally subject to 20% import duty were required to pay 10% import duty. Cotton twist and yarn were to pay 10% import duty, the 3% export duty still continued. Goods like wool, jute, tea, and hides were made duty free. In 1861, the duty on yarn was lessened to 5%. In 1862, the duty on cotton products was lessened to 5% and on yarn 3·5%. In 1864, the general rate was lessened to 7·5%. In 1857, the free list was broadened. These reductions showed the policy of Government to revert to the rates that were prevalent before mutiny.

The growth of Indian cotton industry alarmed Lancashire and the Lancashire cotton interest made an agitation for the abolition of the cotton import duties. In 1875, the Government of India passed the Tariff Act according to which the general import duty was reduced from 7 5% to 5% but cotton imports duty was untouched. In order to pacify the Manchester interests an import duty of 5% was levied on the imported raw cotton. But this was not welcomed by the Secretary of State who laid down that the cotton import duties were to be removed as soon as the finances of India allowed. After prolonged *correspondence between the Govt. of India and Secretary of State certain* types of coarse goods with which Indian manufactures competed were exempted from duty in 1878. As a result of continued agitation in *Lancashire* all cotton goods containing no yarn finer than 30% were exempted from duty in 1879. Ultimately in 1882, the finances of India did improve all cotton duties and general import duties were discontinued. For the next twelve years 1882-1894, India was a free trade country.

Tariffs during 1894-1914. The rapid fall in the exchange value of the rupee necessitated additional taxation and a general import duty of 5% was levied. Machinery and railway stores were freed from duty.

At the bidding of British Govt. cotton yarn and cotton piece-goods were also excluded from among the articles liable to duty. Iron and steel products were to pay 1% duty. After some time owing to financial difficulties the cotton duties were again imposed. There was an outcry in Lancashire and hence the countervailing cotton excise of 5% was levied on all cotton mill-made yarn. But Lancashire was not satisfied. Hence in 1866 the duty on cotton piece-goods was lessened from 5% to 3·5% with a corresponding fall in the excise duty on Indian cloth. Indian hand-loom cloth and yarn imported and manufactured in India were freed from duty.

In 1899 a countervailing duty was levied on bountyfed sugar. Additional duties were levied in 1910 and 1911 on liquor, tobacco and petroleum. A few more minor alterations were made during the first decade of the century. On the whole, the system remained the same upto 1916. The general principles of the tariff system of the period were : (i) a low general import duty should be imposed for revenue purposes, (ii) exemptions and reductions should be made for urgent articles ; and (iii) higher duties should be imposed on tobacco and liquor, the import of which were thought to be able to stand heavier taxation.

Tariffs during 1914-1922. During War because of the need for additional revenue the general import duties were increased from 5% to 7·5% but the cotton duties and the cotton excise duties were left untouched. The number of duty-free goods were reduced. The duty on sugar was increased Export duties was levied on tea and jute. In 1917, the duty on imported cotton-piece goods was increased from 3·5% to 7%, but the cotton excise duty was kept unchanged This showed a change in policy In 1919 the principles of giving protection and imperial perference were introduced in the export duty on hides and skins as a 66% rebate was granted on hides and skins exported to and tanned within the British Empire. In 1921 the general import duties including the cotton import duty were increased to 11·5% but the cotton duty was kept at 3 5%. The duty on sugar was increased to 15% and on luxuries to 20% In 1922, the general import duties except the duty on cotton were further raised to 15% and a duty of 5% was levied on imported yarn. The duties on sugar and luxuries were again increased by another 10%. With all these changes up to 1922 the Indian tariff was a revenue tariff though they had also a protective effect in certain cases.

Q. 57. Clearly explain the working of the principle of Discriminating Protection Why was the system adopted ? What was the result of grant of protection to Indian industries ?

(*Karnatak 1980* ; *Pb. M.A. 1978*, *Agra 1978* ; *Bom. 1979* ; *Kuru, 1981*)

Or

Examine crititically the policy of protection of industries in India adopted after First World War. Why did it not result in rapid industrialisation ? (*G.N.D.U. M.A. 1973*)

Or

Describe briefly the salient features of tariff policy followed by Government during the first half of the 20th century. *(Pb. M.A. 1979)*

Or

Give a critical estimate of the principle of Discriminating Protection in India. *(Pb. B.A. (Hons.) 1982 Pbi. B.A. (Hons) 1980)*

Ans. In Prof. B.P. Adarkar's words, "The Fiscal Policy of the Government of India upto 1923 remained largely free-trade in its orientation, and *revenue of the Government rather than the wealth of the people* was the dominating consideration in deciding upon the rates of Tariff to be levied. Nay, if industries arouse as a result of such revenue tariffs, and consequently the revenue collection fell off, was regarded as an *undesirable* tendency and the tariff was immediately reduced *with a view to correct such a tendency not withstanding the* effects of such an action on the industries concerned" (i) The weakness of this policy came to the forefront during World War I, when imports became difficult. Then Government of India felt that without industries India was more a liability than an asset to the Empire. The Industrial *Commission of 1916 recommended that the State should follow active* steps to develop industries ; (ii) Germany, U. S. A., Japan and many others rapidly industrialised themselves by the use of protection. It was increasingly realised all over the world that a policy of free-trade was no- [illegible] World War I demonstrated industrial [illegible] rought out clearly the weaknesses of a [illegible] of essential goods, such as iron and [illegible] of political *reforms culminating* [illegible] *cated the need for not only political* freedom, but also fiscal freedom ; (v) Non-co-operation Movement agitated the minds of people. To keep the industrialists and capitalists in their hands, Govt. decided to grant protection to the industries.

Under these circumstances, Govt. was forced to follow *certain* steps to satisfy people. Consequently Fiscal Commission was appointed in 1921 to examine the tariff policy. The Fiscal Commission found that India possessed natural advantages as well as adequate raw-material, cheap power and sufficient labour to enable her to develop her industries. In their report to the Government, the Commission recommended the [illegible] of protection. But the [illegible] granted indiscrimina- [illegible] *granted only* to those [illegible] This policy of selecting industries to grant protection was known as a *discriminating protection.* The Commission specified *three* conditions which should be fulfilled by any industry before it could be granted protection These three *conditions known as the Triple* Formula were :

(1) "The industry must be one possessing natural advantages, such as an abundant supply of raw-material, cheap power, sufficient supply of labour, or a large home market. Such advantages will be of different relative importance in different industries, but they should all be weighed and their *relative importance assessed. The successful industries*

of the world possess certain comparative advantages to which they owe their success. No industry which does not possess some comparative advantages will be able to compete with them on equal terms and therefore, the natural advantages possessed by an industry should be analysed carefully, in order to ensure as far as possible that no industry is protected which will become a permanent burden on the community."

(2) "The industry must be one which, without the help of protection, either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interest of the country. This is an obvious corrollary from the principles which have led us to recommend protection. The main object of protection is either to develop industries which otherwise would not be develop them with greater rapidity."

(3) "The industry must be one which will eventually be able to face world competition without protection. In forming an estimate of the potentialities of this condition being fulfilled the natural advantages referred to in condition (1) will, of course, be considered. The importance of this condition is obvious. The protection which we contemplate is a temporary protection to be given to industries which will eventually be able to stand."

In addition to this "triple formula" the Commission also mentioned certain other conditions to be fulfilled while giving tariff protection : (1) Industries subject to increasing returns and which are likely to have an advantages of large-scale production should be preferred. (2) Industries which, in due course of time, are expected to supply the need of the whole country should be preferred. (3) Industries essential for defence and basic and key industries may be given protection without fulfilling the conditions of Triple formula.

Achievements and Working. Between 1923-39, the Tariff Board made 51 enquiries which included fresh applications, renewals of protection and revision of quantum of protection Thirteen industries got protection *i e*, Cotton, Sugar, Match, Iron and Steel, Heavy Chemicals, Paper, and Salt, etc. It conferred several advantages.

1. **Progress of Protected Industries.** During 1923-39 output of steel ingots increased by 800%, of cotton goods by 250%, paper 180%, match 38%, and sugar 400%. Sugar industry is called a 'child of protection' and it developed so quickly that within five years country became self-sufficient in sugar.

2. **Comparative Insensitiveness to Great Depression.** Protected industries progressed even during the period when other industries were passing through a phase of depression. Except for pig iron, others not only maintained their volume of output but in several cases it enhanced very much.

3. **Growth of New Industries.** Many new industries like chemicals, starch etc. dependent on protected industries also emerged.

4. **Benefits to Agriculture.** The growth of cotton industry encouraged the production of cotton. The development of sugar industries led to an increase in area under sugarcane.

5. **Employment in Protected Industries.** The total employment in protected industries grew by 46·8%. But during the same period employment in unprotected industries grew by 23 6%.

Among the industries which were not given protection were, cement, coal, oil and glass.

Judging by the record of growth of protected industries the Fiscal Commission (1949-50) concluded, "The policy of protection .... has achieved a fairly large measure of success."

Appraisal of Discriminating Protection.

(1) According to Prof. Adarkar, "It is all discrimination and no protection. It has vouchsafed nothing better than a perfunctory assistance, indifferently and gradingly rendered to industries whose subsequent development has been left to take its own course."

(2) The conditions not given in the Triple Formula were very rigid. Protection was given to heavy chemicals and glass industries on the plea that the essential raw-materials were not available in India. The locomotive industry was not granted protection simply because that home market was not wide enough.

(3) The first two conditions of the Triple Formula were incompatable. If an industry enjoys all natural advantages, it will require protection. "If an industry succeeds in providing that it does possess the 'natural advantages' in an eminent degree, it cannot at the same time satisfy the second condition that it is not likely to develop at all without the help of protection or is not likely to develop so rapidly as is desirable in the interest of the country"

If these two conditions were applied strictly no Indian industry would have qualified for protection.

"As regards the third condition laid down, *viz.*, that the industry should be able eventually to face world-competition without protection it must be pointed out that it is either redundant or inconsistent. It is redundant if the first condition is satisfied : for, then, the Tariff Board's forecast becomes gratuitious. If, on the other hand, the Board stresses the second condition, stating that the industry is in such a bad way that protection is absolutely essential, its forecast that, in due course, the industry could do without protection, becomes almost astrological."

(4) It resulted in lop-sided development, as each industry was considered separately and its claim to protection was examined with reference to the problem of industrialisation.

(5) The procedure under which protection was granted was dilatory. In case of match industry, the Tariff Board took 18 months to submit its report while in the case of cotton textile the Government took full 2 years to come to a decision on the Board's recommendations. It was often a case of *Nero fiddling when Rome was burning.*

(6) The protection was of the safeguarding nature : it was not developmental. It considered only existing industries and could not erect new ones.

(7) There was no permanent Tariff Board. *Ad hoc* Tariff Board was constituted from time to time. This prevented the taking of long range views and accumulation of experience.

(8) The insistence by Commission that only already established industries should be granted protection gave birth to a serious defect. Without some promise of protection, against foreign competitors many a promoters hesitated to start an industry even when it had great chances of development.

(9) Where protection affected British interests mainly, it was cold-shouldered.

(10) Everything was looked through the glasses of revenue considerations. Thus Prof. Adarkar put, "Many a seedlings were destroyed by the frost of these consideration. That was why reeds, shuttles, Manila rope and Indian cigarettes were denied protection"

(11) The Government of India mostly confined itself to granting protection in the shape of import duties, except in case of iron and steel industry where a cash subsidy was granted. In case of other industries, the Government rejected Tariff Board's recommendations for financial help and concessions in railway freights. This made the system of tariff protection in India very narrow.

(12) Tariff protection was limited by a policy of imperial preference accepted under the Ottawa Agreement. In the end we conclude in Prof. Adarkar's words, "These are no doubt, unpleasant conclusions but the truth must be told and the truth is so glaring and unmistakable that it is impossible to avoid it. It does not suggest corruption but an understandable partiality for the British interests on the part of the Indian Government."

Despite many limitations and difficulties and inconsistencies in the policy of discriminating protection the Indian Commercial policy of discriminating protection produced some good results. There is no denying the fact it was this policy which enabled India to develop some industries and some save others from destruction. To some extent Indian industries were saved from the evils of the Great Depression of thirties.

Q. 58. Critically examine the Tariff Policy of the Government of *India during the inter-War period bringing out its effect on the industrial* development of the country.

Ans. For the first part see answer to Q. No. 57.

Effects of Tariff Policy on the Industrial Development of India.

The main feature of the policy of discriminating protection which greatly influenced the growth of industries by fiscal measures was that each industry was considered separately and its claim to protection was examined without reference to problems of industrialisation as a whole. As the Fiscal Commission remarked, "The policy of discriminating protection based upon short time considerations was *ad-hoc* in nature. No long-run perspective of India's future industrial development was taken into account." The results it produced on the whole were not much

The discriminating protection policy did not lead to any development of investment goods industry Again the strict application of the *'Triple Formula'* meant that many deserving industries were denied protection which prevented their progress. As a matter of fact, only industries which were not competitive with similar English industries were given protection, but those which were competitive to the British industries were denied protection. On the whole until the depression of the 1930's only a small number of industries sustained claims for tariff protection.

It must be admitted that the industries which were given protection made a great progress. They could stand against the strains of the depression of 1930's while industries which were not given protection had to pass through great strains during the period. Production in protected industries made a great progress.

The first industry that got protection was the *iron and steel industry.* As a result of protection the industry developed so much by 1941, that the industry was no more in need of protection.

The *paper and paper-pulp industry* applied for protection in 1924 and the Tariff Board recommended *bounties on paper but the Govt.* preferred protective duties on certain classes of paper. The Govt. gave protection to the writing and printing paper at the rate of one anna *per lb. But the news-print and packing paper were not given protection.* In 1[illegible] duty of Rs. 45 per ton on imported pul[illegible] protection of bamboo pulp. This was [illegible] *0, whichever was higher.*

As a result of these measures the industry made a great progress, so much so that the Government felt that the industry needed no more protection. The installed capacity of the industry in case of writing and printing paper was enough to meet the demand.

The question of protection to the *salt industry* was referred to the Tariff Board in 1929. On the recommendation of the Tariff Board protection was given to the salt industry in 1931 for a year. The protection was extended for one year more.

In 1926, the *cotton textile industry* sought for protection and though the Tariff Board recommended protection, it was rejected by the Government at that time. But in 1927 some sort of protection was given. During the Great Depression the Government was again pressed to give protection to the cotton industry and in 1930 the cotton-piece goods were transferred to the protective schedule and higher and higher protection was given against Japanese competition. Under the shade of protection the cotton industries made substantial progress and by 1934-35 Indian mills supplied 78% of the total home requirements.

The *sugar industry* applied for protection in 1930, and, on the recommendation of the Tariff Board protection was given in 1932 for 7 years. It was renewed at a slightly lower rate in 1939 and continued upto 1946. The industry grew remarkably as a result of protection. In fact, very few examples of the rapidity of such growth could be found in history.

The *match industry* was started in India under the coverage of the revenue duty of Rs. 1-8-0 per gross imposed in 1922. But the Swedish Match Company known as the Western India Match Company (WIMCO) in order to escape from the duty established its factory in India. The match industry applied for protection in 1926. The revenue duty of Rs. 1-8-0 was converted into a protective duty. In 1934, the exise duty was levied on Indian made matches. At the same time a countervailing import duty was imposed. The Indian producers faced competition not only from aboard but also from the Swedish producers in India. Several Indian factories were closed down. Profs. Wadia and Merchant write, "The growth to the match industry in India is the growth of a single manufacturing concern. It was the privilege of this country to institute the protection of an industry, which helped not Indian interests but a foreign combine of world-wide influence and power."

Yet, in spite of the fact that owing to cut-throat competition about 30 Indian factories were closed, yet the match industry made a reasonable progress. In 1921, there were 2 match factories in India employing 400 labourers but by 1939 there were 113 factories employing 16,000 labourers.

The protected industries have made a rapid progress and stood the strain of the Depression.

Q 59. Examine the statement that "Discriminating protection amounted in effect to an indiscriminate refusal to grant protection"

Ans (See Ans. to Q. No. 57 for the conditions laid down for the grant of protection).

The conditions laid down for giving protection were very strict. The third condition was only a matter of opinion and imparted personal element. The Board adopted a very judicial attitude and seldom showed sympathetic understanding of the requirement of Indian industry. The first condition of the Triple Formula that the applicant industry must have natural advantages, including cheap power, raw-materials, an adequate supply of labour and a large home market, applied piece-meal to any industry, proved a great stumbling block to many applicant industries. Again as Prof. Adarkar pointed out, "The first condition requires that the industry enjoys full natural advantages which means that if any industry is so completely blessed, as to possess all the advantages, it is impossible to fulfil the second condition as well" In fact in giving protection, the Govt. had kept in view the interest of Britishers. Even the Fiscal Commission plainly stated, "We do not forget that the U.K. is the heart of the Empire, that on its strength depends the strength and cohesion of the Empire. Unless the U.K. maintains its export trade, heart of the Empire will weaken and this is [illegible] part of the Empire can be indifferent." [illegible] industries which were not competing with [illegible] could easily receive protection while those [illegible] English interests were denied protection.

The use of the principles of protection depends on the will of Tariff Board. The realisation of tne aims of the policy of protection

depended upon the composition of the members of the Board and the spirit in which they functioned. If their attitude was too rigid and unsympathetic, nothing might come of that. And often their attitude was rigid and unsympathetic. This was why some opined that, "It was all *discrimination and no protection.* An analysis of some of the industries that were denied protection would justify the statement to some extent that discriminating protection amounted in effect to an indiscriminate refusal to grant protection." Many deserving industries were either not recommended protection by the Tariff Board or were refused protection by the Govt. even when the Tariff Board recommended it.

The *cotton textile industry* applied for protection in 1926. The Tariff Board made an intensive enquiry into the circumstances of the industry and recommended that the cotton industry should be given protection. It recommended among other things that the import duty on cotton-piece goods should be increased from 11% to 15% for 3 years and that a bounty of 1 anna per lb. should be given on the production of yarn of and above 32 counts. But the Govt. rejected these proposals on the ground that a long established industry like cotton industry needed no stimulus of bounties. Only when the depression in the industry became very acute and a heavy pressure was put on the Govt. they granted protection.

The *heavy chemical industry* applied for protection in 1928. The Tariff Board was requested to make an enquiry into the condition of the industry Considering the great national importance of the industry the Tariff Board concluded that industry required protection and recommended that specific duties should be lievied on imports and that a bounty of Rs. 18 per ton be given on supersulphates, It suggested reduction in railway freights and the re-organisation of the industry on a large-scale with the help of a national combine. Another enquiry was to be conducted after seven years. But the Govt did not take a sympathetic view and held that protection could not be given because of the lack of sulphur. Only after a great pressure from the legislature and the public, the Govt. gave protection and that too only for 18 months. In 1933, it was discontinued on the grounds that combinations had been found impossible and that the industry had not yet developed. The treatment given by the Govt. to the heavy chemical industry was a typical example of the different policy followed by it.

The Tariff Board in 1926, considered the demand for the protection by the *coal industry.* The Tariff Board concluded that the industry was in difficulties because of over-growth and that there was no need for protection. The recommendation of the minority in the Tariff Board to impose a countervailing duty on South African Coal was rejected by the majority on the ground that such a duty would lead to retaliation. The Govt. refused protection.

The *cement industry* experienced severe competition for England and by 1924 the industry was facing a great difficulty. The industry applied for protection and the Tariff Board after an enquiry concluded that the

difficulties of the industry were mainly on account of internal competition and hesitatingly recommended bounties on cement. They also suggested that the Govt. should not give bounties until they were satisfied that it would not lead to reduced prices of Indian cement. The Govt. refused these conditional proposals and refused protection. In rejection of protection to an industry of national importance which fulfilled even the conditions laid down, the Fiscal Commission was 'somewhat irresponsible.'

The *glass industry* asked for protection in 1932. The Tariff Board found that all raw-materials except soda ash were available and that there was no lack of any basic material from which soda ash can be produced. Assuming that there were reasonable prospects of the almost immediate manufacture of soda ash in India the Tariff Board recommended protection to the industry. But the Govt. refused protection on the ground that soda ash had to be imported. The rejection of the claim to protection by the glass industry was to say the least unfair.

Similarly, protection was refused to petroleum. The woollen industry too was refused protection in 1935 because of the lack of natural advantage in spite of the fact that the Tariff Board had recommended protection.

Q. 60. Give a brief review of the recommendations of the Second Fiscal Commision (1949-50) and assess its contribution to the industrial development of India. (*Pb. 1972 ; Kuru. 1980*)

Ans. In the light of the unsatisfactory manner in which the policy of discriminating protection was *followed* it is little wonder that the result was hopeless. An appropriate fiscal policy being the most impor-
tant method of stim ... ries it was essential
to r ... nment appointed a
Fis ... as its Chairman,
to r ... ssion submitted its
report in 1950.

New Fiscal Policy of India. The Second Fiscal Commission worked out new principles for grant of protection to industries. The main features of the fiscal policy are as follows :—

(1) Devel- ... The Commission worked out a new
... f the safeguarding type of protection
... to be development protection. The old
policy did not name the comprehensive object of securing a broad
well ...
... A fundamental
... erformed by our
... basic and key industries would thus require much more attention than a few consumers' goods industries as had been done under the old policy. New industries would be the object of much more attention than the existing ones, if the industries are more important.

(2) Protect- ...
their ... stries. In keeping view of
and c ... judge and lay down terms
... decide the extent of protection and also re-

view from time to time their progress. No rigid conditions should stand in the way or protection being granted to them.

(3) **Protection for Defence and other stategic Industries.** These industries must be protected irrespective of their costs. Their development is a must for the preservation of our Independence.

(4) **Protection for Industries which could stand on their own legs.** For granting protection to an industry not included in the above written categories, the Fiscal Commission enunciated the following criteria : "Having regard to the economic advantages enjoyed by the industry o available to it and its actual or probable cost of production it is likely within a responsible time to develop sufficiently to be able to carry on sucessfully without protection or assistance."

(5) **Protection in national Interest.** Protection could also be given to an industry which it was desirable in national interest to assist and having regard to the direct and indirect advantages, the probable cost of such assistance to the community was not excessive.

It would be seen that no hard and fast rules were suggested by the Commission. National interest is the sole criterion to entitle an industry to protection. The Commission, therefore, specifically laid down that :

(i) "If an industry possesses other economic advantages, such as internal market, labour supply etc. protection should not be denied merely on the grounds of raw-material being not available within the country."

(ii) "It should not be necessary for an industry to satisfy the needs of the entire domestic market."

(iii) "Not only the existing home-market, but a potential export market should also be taken into account to determine protection for an industry. Thus it is no longer necessary to satisfy the old Triple Formula of discriminating protection for an industry to get protection. In this respect, the new fiscal policy is a great improvement on the old policy of discriminating protection."

(6) **New Industries.** For new industries needing heavy initial investment case for giving protections is strong.

(7) **Compensatory Protection** may be granted to industries which use the products of protected industries.

(8) **Protection to Agriculture.** Agricultural products may be protected, if necessary, in national interests. But protection in such cases should be never more than for 5 years at a time and the Government must conduct a programme of agricultural improvement during the period of protection to reduce such a period.

(9) **No Excise Duty under Protection.** Industries should not be burdened with excise duties during the period of protection.

(10) **Development Fund.** The Commission recommended that a Development Fund should be created with contributions from the customs revenue obtained from protective duties. Subsidies can be given to needy industries from the fund. Under certain circumstances, subsidies from this fund would be preferable to protection.

(11) **Tariff Commission.** The Fiscal Commission rightly recommended that the status, powers, and functions of the tariff authority should be improved. They suggested that such an authority should be called the Tariff Commission. It should be a permanent body and should be placed on a statutory basis. Its functions should be much broader, so that even on its own initiative it should conduct enquiries to suggest changes in protective duties. Moreover, it should review the working of the protected industries and submit a report thereon to the Government, preferably after every three years.

The Commission recommended that ordinarily the Government should arrive at a decision within 2 months of the submission of the report.

The Govt accepted the above recommendations of the Fiscal Commission. Accordingly the Indian Tariff Commission was appointed with wider powers. It started functioning on Jan. 21, 1952, and since its inception has done a great deal of good work. It has conducted a number of enquiries and has made suitable recommendations.

Working of the New Tariff Policy. The important industries, which on the recommendation of the Commission have been given protection for the first time are automobile and component parts, ball bearings, automobile hand tyre inflators, power and distribution transformers, titanium dioxide, dye-stuffs, caustic soda, bleaching powder, engineers steel files and calcium carbide, etc.

Some of the industries to which protection was extended are motor vehicle battery, starch, grinding wheels, hydro-quinine, calcium lactate sericulture, wood screws, plywood and tea chests, plastic, buttons, glucose, preserved fruits, electric brass lamp holders, antimony, sheet glass, bicycles, cotton and hair belting, cocoa powder and chocolate, cotton textile machinery, oil pressure lamps and sago etc.

Among the industries refused grant or extension of protection are dry battery, ferrosilicon, pencils, fountain pen inks, hurricane lanterns, pickers, sewing machines and zip fasteners. Protection to plastic buttons and to several non-ferrous metals was discontinued with effect from January 1, 1950.

Price enquiries by the Commission also have served a very useful function in as much as they have promoted efficiency on the part of the protected industries.

It is gratifying to note that the protected sector of our economy has made a valuable contribution to the industrial development of our economy.

"The construction of railways in India has undoubtedly been the main factor in extending and revolutionising trade, in transforming the famine problem and in making it possible to establish plantations and large scale factory industries on an economic basis."

—*Dr. Vera Anstey*

24

MEANS OF TRANSPORT

Q. 61. Analyse economic results of Railways in India in the latter half of the 19th century. Do you think that development of Railways was wholly beneficial to Indian economy ?

(*Pb. B. Com. 1978 ; Karnataka 1979 ; Pb. M. A. 1977*)

Or

"Introduction of Steam transport had far-reaching effects on every aspect of India's economic life." Comment.

(*Madurai 1981 ; Himachal 1980 ; Bom. 1978*)

Or

Examine the main economic effects of Railways construction on Indian economy.

(*Bom. B. Com. 1980 ; Allahabad 1976*)

Or

"Economic results of Railways had been detrimental to the varied growth of nation's industrial activities." Discuss.

(*Raj 1972 ; Jammu 1977*)

Ans. Railways have revolutionised India which had mediaeval life as late as the early 19th century. Railways have proved revolutionary impact on every aspect of human life in India. *Socially*, they have brought in people with different languages and customs and created a sense of national unity. The caste-system and the joint family system have broken down partly as a result of railways. *Politically*, they have rendered the administration as well as the defence of the country easy. *Culturally*, railways have helped in breaking down the barriers of Provincialism. But it is their economic impact which is more significant.

Economic Effects

(*a*) **The Credit Side.**

(1) **Village.** Upto the mid of the previous century the unit of Indian economy was the self-sufficient and isolated village with its strange

village set-up where the impact of custom, status and caste was most powerful. Though the contact of India with the West went on for many centuries and though a major portion of India came under the alien rule and new executive and judicial systems were introduced, these did not influence India's economic organisation until the mid of the previous century. But the 'fifties' of that century which experienced the beginning of the railways in India brought good many changes in the Indian economy. The advent of railways broke down the isolation of villages. Isolation was the main rampart behind which the old village had entrenched itself; when it was gone, its whole internal set-up was thrown into confusion. The railways have broken down the caste rigidly and lessened the impact of caste and status.

(2) *Agriculture*. One of the principal factors that led to the commercialisation of agriculture in India was the coming of railways. Previously the farmer's motive was production for subsistence which was replaced by production for the market. The possibility of sending farm goods to far away markets and of obtaining other necessary goods cheaply and quickly from outside brought the exchange economy in place of subsistence economy. There was regional specialisation of crops also. Now there was no need of producing every commodity in the village that the villager was in need of. He could grow the most suitable crop and with the income could get other goods required by him. It is because of the railways that Deccan specialises in cotton, Bengal in jute or Punjab in wheat.

(3) *Industry*. Railways by facilitating the distribution of cheap machine-made goods of the West led to the decay of Indian handicraft industries. But as Dr. Vera Anstey writes, "It is difficult to determine how far the railways have been responsible for the destruction of Indian industries. It is possible that they have aggravated and hastened an inevitable change. The decay of peasant arts is a problem met within every country that has been visited by the Industrial Revolution." On the other hand, it helped the development of modern large-scale industries. Attempts to start large-scale industries in India before the railway era had failed Railways provided cheap and easy transport of heavy machinery, raw-materials, coal and manufactured products and thus helped the growth of industries. The coal industry was benefitted a lot by the railways. The railways created not only a demand for coal, but also helped its cheap movement and distribution. Railways gave a new mobility to labour and enabled the factories, plantations and mines to procure suitable hands.

(4) *Famines*. The railways changed the very character of the famines. The Famine Commission of 1900 has pointed out how during the famines of 1837, 1866 and 1877 millions of people perished from hunger for want of railways. On the other hand, during famines of 1897 and 1900, because of the existence of railways there was never a scarcity of food in any famine-stricken area. The possibility of importing food to make good the deficiency of local harvests had substituted 'famines of money' for famines of food.

(5) Prices In the past custum regulated prices. This was due to the fact that mainly all village transactions came under the impact of custom. But in abnormal years competition overpowered custom, prices were very low in years of plenty and very high in years of scaracity. The villages were isolated. There was no moderating influence from outside. The absence of wide well-organised markets made it impossible to uniform competitive prices all over the country. The railways have brought about uniform prices for most of the products within the country. The railways have created a national market for the various products and have enabled the export of raw-materials and food and have brought about an increase in their demand leading to increase in prices.

(6) Trade. The railways have enhanced internal and external trade and further changed the character of Indian trade. Before the advent of railways owing to lack of transport internal trade was restricted to comparatively light and valuable goods. The railways changed the character and also brought an expansion of trade. Many foreign machine-made goods invaded the village markets.

The impact on *foreign trade* was also great. The character of India's foreign trade altered and there was an enormous growth in India's foreign trade. Previously India's export trade consisted of goods of high value but of small bulk. But after the advent of railways the stable goods of export came to be raw-materials, plantation goods, hides and skins, food stuffs, oil seeds etc., while the imports consisted of cheap machine-made products, railways equipment, hardware machinery, etc.

(7) Urbanisation. The chief factor determining the growth of towns in India has been the railways. They enhanced the importance of the towns through which they pass. They have the effect of creating new centres of trade in the tracts through which they pass. Quicker means of transport have increased the amenities of life in towns.

(8) Transfer of Population. Railways have assisted the transfer of population from highly congested areas to thinly populated areas.

(9) Employment. Railways have given employment to a large number of people.

(10) Government Revenue. Government has benefited both directly and indirectly from railways. Directly because of the Government's share in profits from the railways and indirectly because they have increased the total wealth of the country as such the taxable capacity of the people.

(11) Consolidated Economic Unit. The railways have converted India from a geographical isolation into a well-knit and consolidated economic unit. The railways, by familiarising the people with new conditions and ways of life as well as by enabling a large variety of goods to be brought into the country have left a permanent impression on the general life of the people. The profits of agriculture and rural trade created a middle-class.

(12) Publicity Campaigns. Railways have also assisted conduct of publicity campaigns for the introduction of reforms in farm practices.

(13) Economic Progress. Railways have also played a significant role in exploitation of the economic resources. Railways have proved themselves an invaluable economic asset. India's economic progress since 1853 must be attributed to the railways

(*b*) The Debit Side. Railways, however, have been a mixed blessing.

(1) Industrial Workers ruined. It is often said that the industrial workers have been ruined by the competition of foreign cheap machine-made goods, brought to them by the railways, that the export of food-stuff and raw-materials urgently required within the country has been promoted and by all these, India's economic balance has been shaken. But it is difficult to say how far the railways have been responsible for the decay of our industries. According to Dr. Vera Anstey, "It is probable that they have aggravated and hastened an inevitable change. The decay of peasant arts is a problem met within every country that has been visited by the industrial revolution."

(2) Decay of Handicrafts. Railways have played an important part in the decay of Indian handicrafts and have brought about a lop-sided economic development of the country. The importation of cheap machine-made goods from foreign countries gave a death blow to the Indian handicrafts.

(3) Pressure of Land. The decay of old Indian handicrafts led to the displacement of many people from those industries. They fell back on the land and greatly reduced the agricultural efficiency.

(4) Drain. Railways have drained away the resources of the country and thereby retarded the development of industries by facilitating the exports of raw-materials out of the country.

(5) Investment of the Foreign Capital. Railways development in India has meant the investment of foreign capital in this country which has been associated with many evils.

(6) Decline of Panchayats. By breaking up village isolation, railways have led to the decay of Panchayats. Consequently, litigation increased and rural debt aggravated.

(7) Obstruction of Natural-flows. The railway lines in many parts of the country were so constructed as to obstruct the natural flows of water. This has resulted in floods, water-logging and malaria.

(8) Deforestations. Railways have been responsible for reckless deforestation in the country bringing soil erosion, water-logging, floods and 'chos' in its train.

It may be observed that the demerits of railways are not due to railways construction as such, but they are due to the way in which they were constructed. Some of their evils could have been avoided if development of railways have taken place in a planned way. Railways

are the biggest commercial and public utility undertaking of a nation. We agree with Dr. Vera Anstey, "The construction of railways in India has undoubtedly been the main factor in extending and revolutionizing trade, in transforming the famine problem, and in making it possible to establish plantations and large-scale factory industries on an economic basis."

Q. 62. Trace the development of railways and railways policy of the Government of India.

(Gujarat 1978 ; Pb. M.A. 1977)

Or

Give an account of the various periods in the history of railways construction in India.

(Pb. B.A. (Hons.) 1976)

Or

Trace the development of railways during British rule in India and account for its limited impact on the economy of the country.

(G.N.D.U. M.A. 1973)

Ans. The story of the construction of the Indian railways is an oft-told one which may be broadly divided into 12 well-defined periods.

1. The Old Guarantee System (1844-69). Railways enterprise in India is dated back to 1845 when they were constructed on an experimental basis. Three private companies were permitted to build railways. The first railway line connected Bombay and Thana in 1853. Calcutta was connected with Raniganj in 1854 and Madras was connected with Arakonam in 1856. It was Lord Dalhousie's famous Minute (1853) which gave a decisive turn to Government policy. It was observed that British Companies would not undertake the work of railway construction unless the profits were guaranteed to them by Government of India. Hence policy was named as 'Guarantee System'. Accordingly, contracts on the following terms were entered into with eight companies between 1854-60 for building and managing railways :

(i) free grant of land ;

(ii) a guaranteed rate of interest ranging from 4% to 5% ;

(iii) utilisation of 50% of the surplus profits earned by the companies to repay the Government any sums by which they might have had previously to make good the guarantee of interest, the balance belonging to the shareholders ;

(iv) reservation of certain powers of supervision and control by the Government in all matters of importance except the choice of staff ; and

(v) option to the Government to purchase the lines after 25 years or 50 years on terms calculated to be the equivalent of the companies interest thereon.

This system was defective in certain respects. It placed a great strain on Govt. resources and heavy burden on the tax-payer. The Govt. had to make good the deficiency to the companies on account of the payment of interest. So large was this deficit that it amounted to Rs. 16·65 mn. by 1869. The companies had no incentive to have

economy in construction and Lord Lawrance criticised this system. The Acworth Railway Committee, however, favoured this system on account of (*a*) the urgency of railway construction in India, and (*b*) the shyness of Indian capital making the dependence on British capital which would not have been available without the special attraction offered necessary. However, in 1872, William Thornton gave evidence before the Parliamentary Committee that British capital would have flown into India without guarantee, had it not been for the guarantee system. U.K. had an immense amount of surplus capital seeking outlets in South America and other countries, on unguaranteed system and India was in no way less attractive from the standpoint of profitability, than those countries. The rate of interest guaranteed by the Govt. to the companies was also needlessly high. Thus the old guarantee system having been criticised on many grounds extravagance of the companies, the remoteness of the possibility of sharing any profits by the Government, and the absence of any effective Government control over the companies—was abolished in 1869.

(2) State Construction and Management (1869-79).

During this period the old guarantee system was abolished. The Govt. affected an alteration in the arrangements regarding the distribution of profits with some of the more important companies, like the Great Indian Peninsula The Govt. under the new arrangement claimed 50% of the surplus profits for each half year. The Secretary of State also decided that to meet the capital needed for new lines in the country, the Govt should obtain for itself the full benefit of its own credit and of the cheaper methods of construction etc. Thus in the year after 1869 the capital expenditure was incurred directly by the Govt., and no fresh contracts were made with the guaranteed companies. Govt. decided to borrow upto Rs 62 mn per year for construction of metre gauge. Thus there was a vigorous programme of railway construction at cheaper cost. However, there were certain difficulties in regard to provision of continuous and adequate funds : (*i*) Sind and [illegible] Afghanistan. The Famine Commission in 1880 recommended strongly the construction of 5,000 miles of new lines in order to mitigate the resulting horrors of further famine in the country. The Govt. faced all these problems and came to the conclusion that the State alone could not find funds sufficient enough to push ahead the programme of railway construction on a large-scale envisaged by the Famine Commission.

(3) The New Guarantee System (1879—1900).

By the early 1880's the trend of thought and action in favour of State management and control of railways had spent away its force and once again the Government decided to utilise the agency of guaranteed companies with certain alterations of the old terms, and contracts were

made with the new guaranteed companies like the Bengal-Nagpur and the Madras and Southern Mahratta Railways Companies. The important respects in which the new guarantee system differed from its older counterparts were three—(i) The new lines were to be the property of the Secretary of State for India and he was empowered to determine the contract after 25 years or at subsequent intervals of 10 years by repaying the companies' capital at par. (ii) The interest guaranteed to the companies on the capital raised by them was lower than under the old guarantee system, the usual guarantee rate now being 3½%. (iii) The Government retained a much larger share of the surplus profits for their own benefit. Thus, under the new system the lines constructed by the companies were the State property from the very beginning. After the expiry of the dates of contracts under the old guarantee system in most of the cases the Govt. terminated the contracts and many lines managed by the companies like the Eastern Bengal, the Oudh and Rohilkhand and the Sind-Punjab railways were purchased and transferred to State management. Similarly, on the expiry of date of contracts with the new companies, in spite of the fact, the management continued to be made by the companies, the Govt. secured further financial benefits by reducing the guaranteed rate of interest and companies' share in the surplus profits.

(4) Rapid Extension and Development of Railways and Commencement of Railways Profits (1900-1914):

The salient distinguishing features of this period over the others were the rapid development of railways as a part of a new and much more vigorous policy of national development in almost every sphere of the country's economic life. In 1905 the status of the railways was upgraded by creating a separate department and Railway Board consisting of a Chairman and two members was created at the head of the railways system under the Department of Commerce and Industry. In 1908 a further impetus was given for the development of railway construction in the country when the Mackay Committee on Railway Finance fixed for the future a standard of £ 13·5 mn. as the annual programme for capital expenditure on railways. Notwithstanding the hard fact that the Govt. expenditure in any year did not come upto the standard fixed by the Mackay Committee, they spent sums considerably larger than in the previous years. The idea of the development activity can be made from the fact that the railway mileage in this period rose from 24,752 in 1900 to 34,656 in 1913-14, and the capital outlay from Rs. 3,215·3 mn. to Rs. 4,950·9 mn.

Another distinguishing feature of this period consisted in the commencement of railway profits in 1900. Thanks to the general economic development of the country, the load of passenger and traffic rose and railways began to yield profits. From a concern of loss they became in this period a profitable proposition. Although the profits were small for the first years after 1900 but by 1914 the total accumulated profits came to Rs. 1,030 mn.

"In 1859-1900 for the first time a net profit of Rs. 11 lakhs was earned. Between 1900 and 1914 (except in 1908-09) a substantial net profit was earned annually, although the charges for both passengers and goods remained extremely low." (Dr. Vera Anstey).

(5) **Break-down of the Railway System (1914-21).** There was a general break-down of the system during this period as the newly-constructed lines failed to face the heavy strain of War. A large part of the rolling stock and the staff had to be diverted towards War and the import of new materials from England and other countries was stopped Not only was any further construction of lines held up but even old ones were not maintained. The Acworth Committee portrayed in these words, "There are scores of bridges with girders unfit to carry train loads up to the modern requirements; there are many miles of rails, hundreds of engines, and [illegible]nds of wagons, whose rightful date [illegible] Anstey's words, "It was clear that [illegible] inadequate, and that congestion of traffic had become a normal feature. Even before the War, Government had failed to provide adequate funds for capital expenditure and renewals, and during the War-period naturally this condition of affairs was intensified. The causes of the failure were attributed to the paralysing financial system and to the anomalous status of the Railway Board. The latter was said to overloaded with routine, trammelled by unnecessary restrictions, and possessed of inadequate power over general policy, while it was not adequately represented on the Governor's Council as the member-in-charge was also responsible for two other departments, and had not the time or knowledge to attend fully to railway business. In addition, the public, had no accessible means of redress for grievances, great delays were experienced, and complaints were made that undue preference was given to certain (particulary European) traders. The neglect of the comfort and welfare of the third class passengers was glaring." The public became discontented and clamoured for State interference.

(6) **Acworth Committee and after (1921-25).** The result of the said agitation was the setting up of Acworth Committee in 1921 which recommended direct State management and separation of Railways Budget from the General Budget and annual receipt of revenue from railways. As a result of the strong plea made by the Committee and the strong national sentiment that existed in the country in favour of State management, the Govt. finally decided to buy railway lines from private companies when the contracts became terminable. Starting with E. I. R. in Jan. 1925, and G. I. P. in July, 1925, all State-owned lines were purchased under direct State control.

(7) **Separation of Railway Finance (1925-29).** The chief feature of this period is the separation of Railway Budget from the General Budget. The first separate budget was presented before the assembly in March, 1925. The contribution of railway to the Govt. was fixed at 1% of the capital at charge invested in railway lines plus 20% of the surplus profits.

(8) **The Great Depression (1929-36).** Along with Commerce and Industry, the railways were hit hard by World Depression in 1929. They failed to make their contribution to the General Budget and over-dues went on to Rs. 365 mn. in 1939-40. To meet the interest charges on capital, railways had to borrow from their Depreciation Fund Rs. 313 4 mn.

(9) **Recovery (1936-39).** Owing to recovery of commerce and prices the railways started showing surplus Rs. 12·5 mn from 1936-37 which increased to Rs. 43·3 mn. in 1943-40.

(10) **The World War II (1939-45).** With the breaking out of War and the resultant increase in commerce and industry, railways started marching upon a most prosperous period of their career. The budget for 1940-41 disclosed a surplus of Rs 82 9 mn. but actually turned out to be Rs. 150 mn. in the final accounts. This surplus was Rs 200 mn. in 1941-42, Rs. 290 mn. in 1942-43, Rs 360 mn. in 1943-44 and Rs 500 mn. in 1944-45. During the War-period surplus was Rs. 2000 mn. General revenues received was Rs. 1580 mn. By 1943 railways had not only paid off their debt to Depreciation Fund but also discharged their obligations to the Central Govt. On the whole, Indian Railways faced the strain of War well and proved themselves to be better equipped for such emergencies than they were in 1914.

(11) **Post-War period and Partition and Railways.** With other industries, the railways had also their quota of misfortunes in the post-War years. There was a great difficulty in obtaining new engines, rolling stocks, and spare parts etc. The demand for transport remained heavy with the consequent over-crowding accumulation of goods in godowns. The Partition gave another blow to the railways. The revenues of the railways suffered as a result of disorganisation. The year 1950 was a red-letter year in the history of Indian railways. It was during that year that practically the whole railways system was brought under the owner-ship and management of Indian Govt. With the political unification of India, integration of Indian railways was brought about which removed all the differences that existed in size, ownership and tariff administration of various railway systems. After having brought about integration, the Govt proceeded to regroup railways on zonal basis to secure uniformity, economy and efficiency in their administration. Accordingly the Govt. welded different railways systems (37) into one co-ordinated undertaking and then divided it into 6 in 1951, 7 in 1955 and 8 zonal administrative units in 1958.

(12) **Plans and the Railways** In the First 5-year Plan Rs. 4,237 3 mn were spent on rehabilitation and expansion of railways and it primary object was to restore the pre-War standard of operational efficiency by replacing over-aged assets. In the Second 5-year Plan Rs. 10,437 mn. were allocated envisaging substantial expansion. Over a decade (1951-61) about 1,200 miles of new lines were constructed. 1,300 miles of rail track were doubled and 800 miles were electrified. During this period number of locomotives, coaches and wagons rose from 8, 200 to 10,554 ; 20,502 to 28,171 ; and 2,22,441 to 3,41,041

respectively. The railways development programme under the Third 5-year Plan with the sum spent Rs. 16,858 mn. included 2,640 lakhs tons goods, increase of traffic by 15%, acquisition of 2,090 locomotives, 8,608 coaches, 1,27,464 wagons, doubling of 3,928 kms. of lines, renewals of 8,000 kms and construction of 2,400 kms. of new lines, and electrification of 2,498 kms.

The Government spent Rs. 1,060 crores on railway development under the Annual Plans (1966-69). During the Fourth Plan, the Government had provided for an expenditure of Rs. 900 crores for railway development programmes; and railways would spend another Rs. 550 crores out of their own funds. The Fourth Plan had provided for:

(i) Construction of new railway lines of over 1,020 kms.;
(ii) electrification of 1,700 kms. of railway lines and dieselisation of another 2,800 kms.;
(iii) production of 1,260 locomotives;
(iv) addition of over 1,01,003 wagons; and
(v) increase in the number of coaches by 6,500.

Although there was a slight drop to Rs. 1,420 crores in the Fourth Plan, this was more than made up in the Fifth Plan with an expenditure of Rs. 1,551 crores for four years of the 5th Plan (1974—78), excluding Rs. 33 crores on the Metropolitan Transport Schemes. For the first year of the Sixth Plan (1980-81), the resources allocated are a big sum of Rs. 590·10 crores with an additional sum of Rs. 5 crores to meet the working capital requirements for financing export orders A big allocation of Rs. 2,350 crores, besides Rs. 200 crores to be spent in the metropolitan cities of Bombay, Calcutta, Delhi, and Madras has been made in Sixth Plan (1980—85).

We may now sum up the progress the Indian railways have achieved under the Five-year Plans. The following figures are taken from from *India 1981*.

	1950-51	1980—81
Route length (km.)	53,596	60,600
Electrification of Route length (km.)	388	4,810
Passengers (lakhs)	12,840	32,910
Goods traffic (lakh tonnes)	930	4,280

[illegible] more, the Indian railways have been [illegible] ample, there is a gradual increase in [illegible] ...se of electric and diesel engines and introduction of automatic signalling and tele-communications.

Though in railway mileage India is the large in Asia and the 4th in the whole world, yet considering the size of the country our total railway mileage is not adequate.

Q. 63. Examine critically the financial position of Indian Railways after the separation of railway finance from general finance.

Ans. On the recommendation of the Acworth Committee, the sepa ration convention was adopted by the Central Legislative Assembly in Sep. 1924 To appreciate the financial conditions of the Indian Railways after the separation of railways finance from the general finance, we must know something about the position existing before the separation of 1924.

Before 1924, the General Budget included also railway finances. Under this arrangement, the railways went out of business on the 31st March and began life anew at the beginning of each official financial year. This system involved the Govt. with many difficulties and uncertainties. On the other hand, the railways could not be conducted as a business undertaking and they were completely dependent on the exigencies of the Ceneral Budget. The General Budget also included an eleme of uncertainty since it included railway profits which were unpr dictable. Proper attention could not be paid to depreciation, develop ment and expansion problems of the railways. It was for these reasons that the railway finances were separated from the general finance- budget.

According to the 1924 convention, the railways had to contribute to the general finances 1% on the capital charge of commercial lines, exclu ding capital contributed by companies and Indian States, plus 20% of the surplus profits in a year, interest on capital at charge strategic lines and loss in working being deducted. It was also stipulated that after paying all these contributions, if the amount available for transfer to the Railway Reserve Fund should exceed Rs. 33 mn, 33% of the excess should also go to the general finance. The purpose of the Railway Reserve Fund was to strengthen the railways financially. By this arrangement the general budget would be getting a certain amount of contribution from the railways.

The period after separation was one of the financial prosperity to the Indian railways. Their gross earnings increased from about Rs 890 mn. in 1919-20 to Rs. 1,160 mn. in 1931-32. The railways started a separate Depreciation Fund, based upon the estimated lines of assets and annual appropriations to this Fund amounted to over Rs. 110 mn. The net receipts on the capital charge was 5·3% per annum. The general budget received about Rs 60 mn. annually from railway finances and the annual allocation to the Railway Reserve Fund amounted to Rs. 27·9 mn.

The thirties were a period of great stress and strain for the railways in the country. This period was one of depression and there was intense competition between the railway and roadways During the first years, earnings of the Indians railways fell to an average of Rs. 950 mn. while the operating expenses increased by 70%. The ratio of receipts to capital fell to 3·3%. Money had to be withdrawn from the Depreciation Fund as well as from the Railway Reserve Fund to meet the interest charges; contribution to the general finance had, therefore, to be suspended. To meet the interest on capital the railways had to borrow continuously

from the Depreciation Fund and such borrowings amounted to Rs. 300 mn. by 1937. Contributions to the extent of over Rs. 300 mn. had to be suspended. A number of committees had to be appointed to suggest ways and means to reduce expenditure on works programmes and to affect economies in the costs of working.

Conditions started improving after 1936-37 and recovery was accelerated after the World War II had broken out. Commencing from 1939-40 there was a steep rise in the traffic earnings and by 1944-45 the gross earnings had risen to Rs. 2,320 mn. Net earnings consequently also rose and in 1943-44 these amounted to Rs. 790 mn. The railways discharged not only their part liabilities but also made substantial contributions to the Government. The original conditions governing contributions to the railways were amended in 1943 and contributions were fixed annually on an *ad-hoc* basis till a revised convention was adopted. However, in spite of this prosperity the railways fared badly for want of replacements and were criticised vehemently by the general public because of the traffic over-crowding menance.

In 1949 a new Railway convention was adopted, which was to remain operative for a period of 5 years. The relationship between the railway finance and general finance was altered in order to give the general tax-payer the status of the sole share-holder in the railway undertaking. General revenues should receive a fixed annual dividend of 4% on the loan capital invested in the railways. Provisions were made to allocate a certain amount annually to the Depreciation Fund, the Revenue Reserve Fund (formerly known as Railway Reserve Fund), and the Development Fund. A new convention was adopted in 1955.

In 1955-56 the estimated gross earnings amounted to Rs. 2,930 mn. and net earings to Rs. 430 mn. Contribution to the general revenues amounted to Rs. 30 mn. The railways had total revenues of Rs. 1,500 mn. in 1955-56, of which the Depreciation Fund amounted to Rs. 990 mn., Revenue Reserve Fund to Rs. 470 mn, and the Development Fund to Rs 40 mn.

In 1981-82 the estimated gross earnings amounted to Rs. 2,496 crores and net earnings to Rs. 337 crores. Contribution to the general revenues amounted to Rs 69 45 crores.

The present relationship between the Railway and the General Finances is brought out beautifully by the following quotation :

"The railways have no working balance of their own, whether opening and closing. The General Finance acts as a banker for the railways and the Reserve Fund of the railways is deposited with their banker, the Finance Ministry of the Government of India who is free to utilise them for his ways and means financing."

Q. 61. Discuss the development of road transport in India since the latter half of the 19th century and point out its consequences on the economy of india. [*Pb. B. Com. 1978* ; *Pb. B.A.* (*Hons.*) *1976*]

Ans. Upto the middle of the 19th century, Indian roads were in a very bad condition and the East India Company did not show any

interest in their development. "Despite Lord William Bentick's attempted improvements in the road system of the North, no far-reaching scheme was carried out until the time of Lord Dalhousie. With a serious plan prepared by Lord Dalhousie for road development on military and economic grounds, roads entered a new period. Public Works Departments (P.W.D.) were created in all provinces in 1855 and the Mutiny which necessitated the rapid movement of troops emphasised further the importance of road development. A further stimulus to their development came during the term of viceroyalty of Lord Ripon and Mayo who encouraged the programme of construction and development of roads. In Madras, decentralisation had gone so far that nearly all roads were in the hands of Local Bodies. Similarly, in other provinces, the Local Government maintained the main lines of transport. During famines, workers were supported by the Govt. in exchange for their work on the roads.

The number of buses, cars and lorries etc. which increased largely after 1914, had resulted in the deterioration of the roads. It was then felt that India had not sufficient roads. Accordingly a Committee was set up in 1927 under the presidentship of Jayakar to examine the question of road improvement. The Committee stated that roads in India were becoming a national interest and should be the responsibility of the Centre. It urged that since the direct and indirect income from customs and excise duties on petrol and vehicles went to the Central Govt. it was reasonable that the Centre should build arterial roads, and release local and State funds for local roads. It suggested that railway fund should assist in the construction of roads which in their turn would feed them. It recommended the setting up of a Central Road Development Fund. Since March, 1929, the Central Road Development Fund was set up and from this Fund new roads were to be constructed and existing roads were to be improved. To supplement the expenditures of Provincial Governments and Local Bodies this Fund was introduced in 1934. This Fund was put on a payment basis in 1934, Rs. 46·1 mn. had been allocated to this Fund. Usually Rs. 15 mn. were credited to the Fund per year. Allotments were made to different Provinces every year. Upto 1954 it had received Rs. 225 mn and upto 1956 it had received Rs. 574·3 mn. The revenues accruing to this Fund at present is Rs. 50 mn yearly. In 1934, the Government created a semi-official body known as the Indian Roads Congress to pool all professional experience. As the railways were experiencing acute competition from motor traffic during 'thirties', in 1939 Motor Vehicle Act was passed to regulate and co-ordinate motor transport.

During the Second World War, it was necessary to build roads of strategic importance. The provinces were not in a position to do so. Hence large grants were made out of Defence Estimates. Since then the entire out-look on the roads problem altered. In Dec., 1943 a long-term Road Development Plan known as the *Nagpur Plan* was prepared. Its object was that no village in a well-developed agricultural area should be more than 5 miles away from a main road. 4·3 lakh miles of road were to be constructed at an estimated cost of Rs. 4,480 mn.

It was visualised that India would have an efficient system of roads within 20 years. But in 1948 the plan was modified. The mileage and estimated cost were reduced to Rs. 3·31 lakh and Rs. 3,730 mn. respectively. During 1936-1942, the road mileage increased from 1·99 lakh miles to 2·26 lakh miles.

On the basis of the Nagpur Plan, the Government took the responsibility from April 1, 1947, for national highways runing into 13,400 miles and prepared a 5-year Plan for development estimated to cost Rs. 360 mn. which was later reduced to Rs [illegible] ded in the Central Government's plan w [illegible] road and about 120 missing bridges over b [illegible] other small bridges But actually only [illegible] large bridges and numerous smaller bridges could be constructed and 1,315 miles of roads could be improved.

The State Governments prepared in 1947 a 5-year programme of development involving an expenditure of Rs. 1,200 mn. in order to construct and improve 80,000 miles of roads. Like Central Government's programme, the State Governments' programme was later reduced and actually a smaller sum was spent than was originally made. As against Rs. 1,200 mn. originally allocated by the State Governments and 360 mn. by the Central Government, they actually spent, in a period of 5 years, Rs 500 mn. and Rs. 900 mn. respectively. The programme of development could not make the desired progress because of (*a*) shortage of cement and steel and other building materials, (*b*) lack of finances which forced the Central Governments to stop financial help for road construction and which prevented it from giving the expected loans to the State Governments for financing the projects, and (*c*) lack of interest on the part of State Governments in the project of road construction.

The Government of India have established a *Road Organisation* at the Central level. This organisation looks after the maintenance of national highways and makes grants to State Governments. It also compiles statistics in respect of roads and carries on road research.

A Central Road Research Instiute was set up in 1952 at Delhi for the study of technical problems to road development.

The Border Road Development Board was established in March, 1960 and was given the charge of accelerating the economic progress of the border areas by making these areas accessible through the development of arterial roads.

Now our roads can be classified as follows :—

1. National Highways. These road link capitals of States, large cities and India with foreign countries. They are under the control of the Centre. Their length is 16,000 miles. Most important of them is G.T. Road, from Amritsar to Calcutta 1,200 miles, others are from Calcutta to Madras, Madras to Bombay and Bombay to Delhi. During the Third Plan 100 miles were added to these roads.

2. State Highways. [illegible] commerce, industry etc. [illegible] are under the control of [illegible] *Third Plan, about 25,00*[illegible]

3. District Roads. These roads link important markets and lead to railway stations. *They are under the supervision of District Boards* or *Municipalities*.

4. Village Roads. These roads link one village with another and *are generally kachha roads. They are under the control of* Panchayats.

Special attention has been given to the road development programmes under 5-year Plans. At the beginning of the First 5-year Plan, *India had 1,57,000 kms of metalled roads and about 24,300 kms.* of unmetalled roads. During the Seco[illegible] the length of metalled roads rose to 1·83 lakh kms. at [illegible] a figure of 3·13 lakh kms. In 1961, [illegible] metalled roads were 2·35 lakh kms. and 4·70 lakh kms. respectively. During the Third 5-year Plan more than Rs. 4,450 mn. were spent on the road progress. As a result the length of surfaced roads rose to 2·84 lakh and *unmetalled roads to 6·74 lakh kms. In 1969-70 the figures for* metalled and unmetalled roads were 4·00 lakh kms. and 7·89 lakh kms. respectively. The 4th 5-year Plan allocated a sum of Rs. 8,710 mn. for the development of roads. *The target of the Fourth 5-year Plan was to extend the length of surfaced roads to the extent of 3·34 lakh kms.* The 5th Plan allocated a sum of Rs. 950 crores for the development of roads. In 1981-82 the figures for metalled and unmetalled roads were 5,55,662 kms. and *9,11,000 kms. respectively.*

Appraisal of Road Development. *Inadequacy* Despite all the enormous growth over the 30 years, the road facilities in India are *inadequate. The total road length in our country works out at only* 201 kms for every 1 lakh population and 36·1 kms. for every 100 sq. km. of area. *Surfaced road length is just 14·5 kms. per 100 square km. area,* which is extremely low when compared with U.K., West Germany and France where the surfaced road lengths are more than 130 kms. Again, the surfaced road length is 73 kms. for every 1 lakh of population.

Uneven. The development of roads has been uneven as between the States. The State of *U.P., M.P., Bihar, Gujarat, Rajasthan and* Maharashtra lag behind as compared with States like Tamil Nadu, Kerala and Karnataka Many economically backward regions and hilly areas have poor transport facilities.

Poor Quality. It is not in quantity alone that we are short. Quality of roads is poor and of unsurfaced roads, poorer still. Almost 60% of our roads being unsurfaced are not fit for efficient transport, particularly during rainy season, when even bullock-carts cannot ply with ease. According to the Keskar Committee in 1967 the poor condition of roads caused a loss of Rs 150 crores annually. The figure *would be much larger today.*

Defective. Though the road system has developed a lot there are good many missing links, unbridged river crossings, weak culverts and bridges, and pavements. Even the national highway system had 282 kms. of missing links at the end of 1981-82 Besides, the surface thickness in most of highways is inadequate for heavy vehicles.

Relative Neglect. The Central and State Governments have not been making proper financial provisions for road development in the Five Plans. They have not been spending on roads even the amount collected as taxes from the road-users. Over the planning period, while the taxes collected from road-users have been steadily increasing, the amount spent on road development as a proportion of the taxes collected has been steadily declining

Small number of vehicles. The number of vehicles is very small. The total number of vehicles in India is about 23·5 lakhs, which includes two and three wheelers accounting for a sizable portion according to one estimate as much as 9 lakhs. Compared to some other countries the position is very unsatisfactory. Vehicles per 100 km. of roads, and per 1,000 *population for some countries including India* were. Thailand : 3,124 ; Indonesia : 107 ; Pakistan : 107 ; Sri Lanka; 412, and India was at the lowest rung with 4 and 3. The gross inadequacy is highlighted, if we recall that in Japan there are 27 vehicles per 100 km of road and 257 vehicles per 1000 population

High-cost transport. The roads are not only inadequate, but being of poor quality, cause transport cost to remain high. Were these roads to be of good quality, according to the Keskar Committee (1967), the costs would have been halved as compared to that on bad roads. It is a simqle law *of transport economics that the cost of* haulage per tonne-mile declines steeply with increase in the capacity of vehicles.

"Look at the map of the world. You will see that India has a fine central position which gives India an excellent chance to develop trade relations with the entire globe."
—*Malhotra*

25

FOREIGN TRADE

Q. 65. ***Describe briefly changes in volume, composition and structure of Indian foreign trade in the latter half of the 19th century.***
(Pb. M.A. 1976)

Or

Examine the changes that have taken place in the direction of India's foreign trade since 1939. How far have bilateral trade agreements been responsible for these changes?
(Pb. M.A. 1978)

Or

Discuss changes in composition and direction of India's foreign trade from 1914 to 47.
(Pb. B.A. (Hons). 1980)

Or

Rapidly survey India's Foreign Trade during the last 2 decades. Also indicate the relationship between industrialisation and the pattern of her foreign trade.
(Pbi. B. Com. 1979)

Or

Review the nature, composition and direction of Indian foreign trade during 1947-57. Do you agree with the view that changes in sphere of foreign trade during this period have been most far-reaching and fundamental?

Ans. Indian Trade during the *latter half of the 19th Century.* Indian foreign commerce increased to sizeable dimensions with the stabilisation of the British rule. The volume of foreign trade increased by a large extent in the last half of the last century because of the follow [illegible]; (ii) opening of *Suez Canal*; (iii) [illegible] beginning of *Great Irrigation Work* [illegible] *of Peace and Order.* Exports [illegible] average annual value of Rs. 558·6 mn. for 5 years from [illegible] 3 1 mn. During the same period imports [illegible] 7 mn. to 2,519 mn. From Rs 890 mn. [illegible] the total trade rose to Rs. 2,100 mn. by 1899-1904. The Suez Canal brought U. K. nearer to India by 3,000 miles and reduced 2 to 3 weeks of shipping distance thus thereby halving the time taken previously. It brought new opportunities for

the countries which were enjoying the Mediterranean type climate like Australia, France and Italy. The major portion of Indian exports came to consist of goods of heavy bulk and low price which could now be sent cheaply over thousands of miles so as to meet world demand. Food-stuffs as wheat, tea and raw-materials like jute, cotton, oil-seeds, hides and skins came to be exported in increasing volume and they were paid by the imports of manufactured goods like cotton-piece goods, machinery, glassware, hardware, railway materials, etc. from U.K. and later from other countries like U S A., Germany, and Japan where large industrial development was taking place. Free-trade was adopted in India too. Almost all export duties were ended by 1874 and all import duties with a few exception were abolished in 1882. England enjoyed a monopoly in the field because of British control of shipping and banking, investment of British capital in railways, and British export-houses. But towards the closing decade of the previous century, this supremacy started undermining. Germany was the first power to challenge it and later followed by Japan whose interest in Indian trade was enhanced after Russo-Japanese War. These powers required Indian raw-materials for their own industries and were ready to enhance the sale of their cheap manufactures in India in every possible way. Besides Germany and Japan, there came a good many other rivals like U. S. A., Belguim, France, Italy, China, Java, Hungary etc. Dr. Vera Anstey writes : "The volume of her overseas trade had vastly increased, but from having been a seller of artistic manufactures and much sought after specialities, she had become a source of food stuffs and raw-materials for the materially more advanced countries of the West." Again she remarks, "Thus by the end of the 19th century—India had become an exporter of foodstuffs, raw-materials and plantation products, whilst she depended upon imports of a large part of her clothing and for an immense range of miscellaneous manufactures."

Foreign Trade between 1900-14. The first fourteen years of the present century were marked by great prosperity and a great increase in volume but very little change in the nature of India's international commerce. Both imports and exports rose a lot although exports surpassed the imports Although Britain was the main trader but U. S. A. and Japan became important parties. Trade with Central Europe developed by leaps and bounds The total trade which was Rs 2,100 mn. in 1899-1904 rose to Rs. 3,760 mn. in 1909-14

Foreign Trade during the First World War (1914-18). Both exports and imports fell on the declaration of War in Aug , 1914. But the value of exports recovered in 1916. Trade with Allies could not be maintained at pre-War level because of War conditions and trade with Germany and other enemy countries stopped totally. Trade with neutral nations was also subjected to restrictions. The U S. A and Japan exploited the situation and enriched themselves. A feature of India's foreign commerce was increased in exports of manufactures whose percentage to the total exports increased from Rs. 22 4 in 1913-14 to Rs. 36·6 in 1918-19.

Post-War Trade (1919-29) Just after the First World War ended there was a boom in trade. Indian goods were in great demand. But because of difficulties in transport and high exchange value of the rupee, Indian exports would have been even more. This boom was followed by a depression when Indian balance of trade became adverse in 1920-22 to the amount of Rs 1,140 mn. Britain, United States and Japan began to slacken in their demands for Indian articles and countries of Central Europe could not purchase because of financial stringency. On the other hand, imports of machinery and manufactures enhanced quickly The period from 1922-23 to 1928-29 was a period of recovery and normal conditions. India's pre-War volume of trade was exceeded in 1927-28.

Foreign Trade during Great Depression (1929-33). But the Great Depression of 'thirties' hit India and her commerce suffered a great set-back Exports suffered more than imports. In 1932-33, the worst year of depression, exports were valued at Rs. 1,360 mn. and the visible balance of trade in merchandise was only Rs. 30 mn. Annual home-charges amounted to Rs. 380 mn. India exported gold and thus lived on capital to make up the adverse balance of payments.

Foreign Trade during Recovery (1934-37). The recovery in farm prices in India started in 1934-35 but there was actual recovery only in 1936-37 In that year balance of trade was in India's favour by Rs. 780 mn. as compared to Rs. 30 mn. in 1932-33. In 1934, the Indo-Japanese trade agreement was signed and India's trade relations with Japan improved greatly.

Foreign Trade during Recession (1937-38). In 1937-38 there was a recession lasting till 1938-39, when race for armaments and consequent high expenditure throughout the world led to an increase in prices and improvement in commerce. It affected our trade adversely and most of Indian stable articles declined in value, thus affecting the income of farmers. This situation was aggravated by Sino-Japanese War which greatly reduced Japanese demand for Indian cotton.

India's Foreign Trade Since 1939. The Second World War (1939-45) and the Partition (1947) brought an important change in India's Foreign Trade. The volume, value, composition, character, direction and balance of trade, all have changed fundamentally. During the last 31 years the very pattern of Indian foreign trade has changed.

Main features of trade at the beginning of World War II.

(*a*) Farm products and raw-materials constituted the bulk of Indian exports, while manufactures, were only a small proportion. In 1938-39, manufactured goods formed 30% of total exports and 70% others.

(*b*) Manufactures mainly constituted imports. In 1938-39, 63% were manufactured goods.

(*c*) India had a favourable balance of trade. She had to do it being a debtor country. In 1938-39 it amounted to Rs. 120 mn.

(*d*) Britain held a prominent position (33%) in India's imports and 4% in exports in 1938-39.

. **Position during World War II (1939-45).** Changes brought about by War were as follows :—

1. India's foreign commerce was hurdled during this period by bottle-necks in transport, dislocation cre
in demand in foreign countries. The
was adversely affected during the War
India had a surplus stock of many produ
the War went on there was a scarcity of many exportable products. This retarded Indian foreign trade, India's imports, exports, and total merchandise trade declined from Rs. 1,520 mn., Rs. 1,630 mn. and Rs. 3,180 mn. respectively in 1938-39 to Rs. 1,100 mn., Rs. 1,880 mn. and Rs. 2,910 mn. respectively in 1942-43. There was a steady increase in India's foreign trade after 1943-44 although imports rose more
to the urgent requirement of import of
food-stuffs and partly to the difficulty
exports and of response from foreign coun-
and total merchandise trade rose to
id Rs. 7,940 mn respectively in 1947-48 and to a peak level of Rs. 5,180 mn.. Rs. 1,160 mn. and Rs. 9,340 mn. respectively in 1958-59.

2. There was some alteration in the direction of India's foreign trade during this period In 1942 43 the Empire countries had 76·1% and foreign countries 32·9% share in India's exports as against 52·2% and 47·6% respectively in 1938-39. But gradually the old pattern appeared again and in 1947-48 the Empire countries had 51 3% and foreign countries 41·7% share in India's exports. In 1938-39, the 3 places in India's export trade were occupied by England, Japan and United States and in 1947-48 by England, United States and Australia. There was marked change in the direction of India's imports and in 1945-46 foreign countries supplied 53·9% and Empire countries 43·1% of India's total imports against the corresponding figures of 41 9 and 58·1% respectively in 1938-39. In this way, the Empire countries lost the first position in our imports and gave it to foreign countries and
rend persisted and
in 1947-48 foreign
Empire countries
46·1% of India's tota
Burma and Japan
occupied the first 3 p
but in 1947-48 the
first 3 positions were occupied by the United States, England and Egypt. The U.S.A. came to occupy the first position in 1947-48 due to heavy imports of food from those countries and in the subsequent period England again re-asserted itself and now occupied the first place in import trade of India.

(3) There was a major change in the composition of India's foreign trade and in 1947-48 manufactures accounted for 48·8%, raw-materials for 31·3% and food, drinks and tobacco for 19·1% of Indian total exports as against 30·0%, 45·1% and 23·3% respectively in 1938-39. This indicates that India exported more manufactures and less raw-

materials than in the past. There was a great change in the composition of Indian import trade during the War period and in 1942-43 manufactures, raw-materials, food, drinks and tobacco accounted for 44.5%, 47.3% and 7.3% respectively in 1938-39. This indicates that imports of raw-materials rose and of manufactures and food, drinks and tobacco fell. But, with the restoration of normal conditions, the old pattern reasserted itself.

(4) India's balance of trade became more favourable than ever. While exports rose, imports fell since exporting countries were engaged in War and there were serious shipping difficulties. The favourable balance of trade was 80 mn., 840 mn., and 920 mn. of rupees in the year 1941-42, 1942-43 and 1943-44 respectively. Hence India repatriated sterling debt with the favourable balance of trade. Not only this, India was able to build a sterling balance of Rs. 17,330 mn.

Partition of the country brought radical changes.

Important characteristics of India's Present Foreign Trade.

1. Value as well as volume of Indian foreign trade has gone-up. In 1938-39 it was only Rs. 3,210 mn. But after partition it increased largely to 9,010 mn. in 1948, 10,600 mn. in 1949, 11,460 mn. in 1962-63, 16,100 mn. in 1961, 18,020 mn. in 1961-62, Rs. 18,620 mn. in 1962-63, Rs. 19,6f0 mn. in 1963-64, Rs. 22,001·2 mn. in 1964-65, Rs. 22,909·4 mn. in 1965-66, Rs. 26,403·4 mn. in 1966-67 and Rs. 2,99,507·8 million in 1969-70, and Rs. 196,400 mn. in 1981-82 This is due to (a) India's urgent need for heavy machinery, jute and cotton, raw materials, food stuffs ; (b) the prices also increased greatly during this period, (c) what had been internal trade before became external trade consequent on partitions, especially in the case of raw jute and raw cotton.

2. Composition of India's foreign trade has greatly altered. Food stuff, raw cotton, raw jute which were previously the principal items of exports are now major items of imports. During 1947-77 India imported food worth 35,200 mn. of rupees. For the last two decades, capital goods have been a big item of imports. Our imports of machinery and transport equipment were worth Rs. 10,270 million in 1981-82. Owing to increased home output of these raw-materials in the recent years, there has been some fall in their imports. Nevertheless, they are the items of imports even now. On the export side, the main items of export are cotton, jute manufactures, tea, vegetable oils and metallic ores.

3. Character of our exports and import has also changed. Previously Indian exports consisted of raw-materials and imports of manufactures. Now the proportion of raw-materials in exports has fallen, while that manufactures has gone up. Similary the proportion of manufactures in imports has fallen while that of raw materials has gone up with the practical disappearance of raw jute and raw cotton from exports. India is now much more dependent than formerly for its exports on three goods—jute manufacture, cotton piece goods and
These accounted for 35% of total exports in 1938-39, 59% to

1954-55, nearly 50% in 1960-61 and about 40% in 1981-82. This so much dependence on 3 products is a great drawback which is being remedied by diversifying our export side.

4. **There has been a change in the direction of India's foreign trade.** U.K. still holds an important position in India's imports and exports, though her share has been gradually falling. U.K.'s share in India's imports was 30% and in exports 34% during 1938-39, now it is hardly 20% imports and 27.5% in exports. U.S.A. supplied no more than 6% in India's requirements in 1938-39 now her share in our imports is 23·7% and 16% in exports. India has tended her trade relations with U.S.A., Canada, Australia, West Germany, Egypt; and Burma.

Another trend to be noticed is the increasing share of Communist countries (U.S.S.R. and the East European countries) in India's foreign trade. These countries' share has increased from 1% during First Plan to 19% at the end of Fifth Plan. The imports from Eastern Europe increased from 2·2% in 1952 to 4·6% in 1956 but declined to 3·7% in 1960, and again to 2·5% in 1981.

In terms of currency areas there has been a notable shift in this direction. While before War, only 10% of India's foreign trade was with dollar area, the ratio has increased to 20%. Trade with Middle East and Far East countries has also been increasing. On the whole, there is a much greater diversification now in the direction of India's trade.

5. **Balance of Trade has become Adverse.** India came to have an unfavourable balance of trade. Before the War, India always had a favourable balance of trade. This was mainly because she was a debtor country. She had to pay home charges in addition to interest on foreign capital. The War converted her into a creditor country. There were also huge imports of food-grains, machinery, raw cotton and raw jute. All this resulted in making Indian balance of trade unfavourable especially with dollar and hard currency countries. In 1948-49 it was unfavourable to the tune of about Rs. 2,838 mn. The Govt. has been adopting measures to set right the balance of trade position. Devaluation was one such measure. Strict restrictions were also levied on imports. In 1949-50 balance of trade was unfavourable to the tune of Rs. 899 mn. In the following year owing to increase in demand for Indian exports particularly on account of the Korean War, unfavourable balance was reduced to Rs 35 mn. But the year 1951-52 again saw an unfavourable balance of trade of Rs 2,328 mn. This was due to heavy imports of food-grains, jute, cotton and machinery. In 1955-56 India had an adverse balance of trade to the tune of Rs. 1,095 mn. But since much of this is on account of industrial development, the adverse balance is not of any serious consequence. In the years 1956-57 and 1957-58 there was a steep rise in adverse balance of trade. It was Rs. 2,199 3 mn. and Rs. 6,395 mn respectively. The adverse balance reduced to Rs 4537 mn in 1958-59 and Rs 4.335 mn in 1961-62. The adverse balance during 1962-63 and 1963-64 was Rs. 4,328 6 mn. and Rs. 3,296 1 mn. respectively and Rs. 4,324·2 mn. in 1964-65. In

1965-66 the adverse balance of trade increased to Rs. 5,258·9 mn. In 1968-69 it amounted to Rs. 5,073 8 mn It amounted to Rs. 1693 mn. in 1969-70 and to Rs. 900 1 mn. in 1970-71 and Rs. 2,870 mn. in 1971-72.

It was + Rs. 1030 mn. in 1972-73, —Rs. 4,320 mn. in 1973-74,—Rs 11,900 mn. in 1974-75,—Rs 12,220 mn. in 1975-76, but it was+Rs. 690 mn. in 1976-77 and.—Rs. 54,200 mn. in 1981-82.

Imbalance of Trade with Dollar Area and the Continental Countries of Europe. In the pre-War period, India used to have a surplus in balance of trade with dollar area. But the War and Partition reversed it Since Independence, with the exception of a year or two India has had large deficits with dollar area. During the last decade owing to heavy imports of capital goods for industrialisation, the deficit with the continental O.E.E.C. countries, especially West Germany have been very large than those with the dollar area.

Unfavourable Terms of Trade. The discrepencies in the movements of unit value and quantum indices have been such that India has by and large been faced with unsatisfactory terms of trade. For instance the net terms of trade during the period 1954-55 to 1958 (base 1952-53 =100) moved down sharply from 110 to 101. The same was repeated during subsequent period 1960-61 to 1971-75 (base 1958=100) when the figure slipped from 115 down to 94. Based on the revised series with 1968-69 as 100, the picture was disastrous with the terms of trade tumbling down from 106 in 1970-71 to 72 in 1981-82. Gross terms of trade fared worse. Between 1960-61 and 1974- 5 (base 1958=100) the terms of trade declined from 128 to 84. According to the revised series (1968-69=100) the position is also bad, perhaps worse, with terms of trade declining from 82 in 1970-71 to 52 in 1981-82. All this means one thing : we are losers in this game of trading with foreigners.

"Among the various War times development in the sphere of Indian currency, the enormous expansion of currency overshadows all others by its spectacular character, its wide sweep and its direct impact on the daily life of the common man."

—*D.K. Malhotra.*

26

CURRENCY

Q. 66. Review the history of Indian Currency during 1850-1932. (*Bom. 1955*)

Ans. During 1850-1914 many changes have taken place in the Indian economy of which an improved currency system was one. In the first place, there was a transition from commodity economy to cash economy. In the past, the Jagirdars were paid in corn and other goods. But now the British system of payment in money was introduced by the Govt. and as more land passed into the hands of the English, the system of payment in money became more and more prevalent. Secondly, the Govt. had to make yearly payment to 'Home Charges' to the British Govt. and cash was needed for that purpose. It became necessary to get revenues in money. Finally, India's foreign trade got a special fillip in this period and this meant an increased demand for money. But, although there was a greater demand for cash, the supply of currency could not meet this increased demand as the out-put of silver did not meet the increased currency needs of the different countries. The monetary stringency in this country was aggravated by the fact there was no credit money. To overcome this difficulty the Govt. issued Interest-Bearing Treasury Notes. But these were a failure as their denomination was very high and they could be accepted only at offices *i.e.*, Calcutta, Bombay and Madras where they were issued.

As silver monometalism was not adequate to meet the requirements of India there were 2 possible ways open to the Govt. : (*a*) to introduce gold in the circulating media, or (*b*) to introduce paper currency. The Govt. considered various methods by which gold could be introduced into the currency system but they were not found satisfactory. Govt. decided to introduce paper currency in India to supplement silver currency. But the introduction of paper currency did not give much relief, and the demand for gold currency continued and ultimately the Govt. had to issue a Notification in 1864 to the effect

that the sovereigns and half-sovereigns that were issued at the mints in U.K. and Australia would be accepted in all British Treasuries in India and its independences @ Rs. 10 and Rs. 5 respectively. But as the par value of the sovereigns and and half-sovereigns was more than Rs. 10 and Rs. 5 respectively the Notification remained inoperative and monetary stringency went on. The Goverement appointed a Commission to look into the matter.

The Mansfield Commission (1866) which considered methods of meeting the currency requirements of India recommended that "(a) gold coins of Rs 15, 10 and 5 should be issued, (b) currency should consist of gold, silver and paper, and (c) the Government should consider the possibility of issuing universal currency notes." The Government did not accept the recommendation of Mansfield Commission and the only action it took was to change the rate of sovereign to Rs. 10-80 but this step was not adequate to induce a flow of gold into the country and the currency difficulties of India continued unabated.

Until 1873 the external value of the rupee was constant at 1*s* 10½ *d* but after 1873 the parity was disturbed because of an increase in the production of silver as compared to gold. It was increasingly realised at that time that a stable monetary standard should be established and for this purpose a committee was set up.

The Herschell Committee (1892) which was appointed to look into the matter, recommended that (*a*) the rupee should remain full legal tender, (*b*) the free coinage of both silver and gold should be closed and (*c*) the Government should have the liberty to coin rupees if needed by the public, in exchange for gold received in Government Treasuries at the rate of 1 *s.* 4*d.* (gold) to a rupee. The Act of 1893 was passed incorporating the recommendations of the Herschell Committee but after 1893 the Government policy regarding the monetary standard in India remained vague. This affected the business community adversely and a monetary stringency was created by the closure of the mints. A fall in the price of silver did upset the exchange value of the rupee.

In consequence the Fowler Committee (1895) was set up which recommeded that (*a*) the British sovereign should be introduced as a current coin and made full legal-tender, (*b*) the Indian mints should be free to follow the unrestricted coinage of gold on such terms and conditions as governed the Australian branches of the Royal Mint, (*c*) the exchange value of the rupee should be stabilised at 1 *s* 4 *d* (gold), (*d*) the rupee should be unlimited legal tender, (*e*) the Government should give rupees for gold but fresh rupees should not be coined until the proportion of gold in the currency exceeds the needs of the public, and (*f*) the Government should supply gold for export if the exchange value of the rupee indicated a tendency to fall below the specific point. The Act of 1899 was passed on the basis of this Committes's recommendations and under it : (*i*) Sovereigns and half sovereigns were made

legal tender throughout India, (*ii*) a mint was opened for the coinage of gold, and (*iii*) a gold reserve was created to set aside the profits on the coinage.

The currency standard of India, steadily deviated from the ideal Gold Standard and gradually evolved into a Sterling Exchange Standard but has usually been designed the Gold
the scheme of a gold mint was set aside
was transferred to London to be held in sterling securities, and a paper currency reserve was maintained partly in London and partly in India. Thus it is clear that the Gold Exchange Standard was not founded on a scientific basis but resulted from a number of erratic changes in India's currency system. Its working depended on the sale of Council Bills and Reverse Council Bills. Before 1893 the Council Bills were sold only for meeting the 'Home' charges but after 1893 they were also used for normal trade purposes An English importer of Indian goods would pay sovereigns to the Secretary of State who would than issue a Council Draft for the amount received from the British importer and the Indian importer was paid out of the Indian counterpart of the paper council reserve, or the rupee branch of the Gold Standard Reserve. In 1904, the Secretary of State declared that Council Bills would be sold without limit at the rate of 1 *s* $4\frac{1}{8}$ *d.* to a rupee. The exchange rate of rupee was prevented from going above this level. For immediate payments, the Bills were also available in a telegraphic form and were then known as Telegraphic Transfers. The Reserve Council Bill was a Bill of Exchange drawn by the Government on the Secretary of State and was sold at the rate of *1s.* $3\frac{29}{32}$ *d.* a rupee.

Indian Currency during 1915-1939

During this period Indian economy saw many changes. The World War I (1914-18) showed many deficiencies in Indian economy and focussed public attention on some of the problems of Indian economy. It was during this period that the Indian Industrial Commission (1916) with Sir T. Holland as Chairman, the Fiscal Commission 1921 with Sir I. Rahimotoola as Chairman, the Royal Commission on Indian Agriculture (1926) with Lord Linlithgo as Chairman, the Royal Commission on Labour (1929), the Central Banking Enquiry Committee, the External Capital Committee were set up. The condition of Indian Shipping
share in India's foreign
only about 25% of the
(1923) recommended
the licencing of steamers operating between the coastal ports with a view to gradually reserve it for Indian shipping. The Committee recommended the provision of training facilities to Indians in marine engineering. It also recommended subsidies to Indian Companies. But the only result of this Committee's recommendation was the introduction of 'Dufferin Scheme' which gave training facilities in marine engineering

Currency System. The wrong currency policy of Government inflicted a heavy strain on commerce and industry during this period.

The Chamberlain Commission had made recommendations for improving the working of Gold Exchange Standard but they could not be put into operations as the report was published in Feb., 1914, and the World War I started in July, 1914. The Gold Exchange Standard, which operated upto 1917, did not work satisfactorily. Due to a fall in the world output of silver and an increased demand for currency purposes, the price of silver increased from 27½ d. per standard ounce in 1914 to a little more than 43 d. in Aug., 1917, and 55d. in Sept., 1917. In consequence the exchange value of the rupee rose to 1 s. 5d. in Aug., 1917, 1 s. 6d. in April, 1918, 1 s 8d. in May, 1917, 1 s. 10d in Aug., 1919. The Government was compelled to abandon the Gold Exchange Standard in 1917.

The Babington Smith Committee (1919) which was appointed to inquire into the effects of War on Indian Currency and Exchange recommended that (i) the exchange value of the rupee should be fixed at 2s. (gold), (ii) the rupee should be unlimited legal-tender. But side by side with it the sovereign should also be unlimited legal tender at the rate of Rs. 10 per sovereign, although the Government would not be under obligation to give rupees for sovereign, (iii) it would not be in India's best interest to encourage the use of gold coins But a gold mint should be set up at Bombay and gold coins may be issued in small quantities, (iv) the profits on the coinage of rupees should be kept in the Gold Standard Reserve, half of which should be maintained in India, (v) the metallic backing behind paper currency should be fixed at a minimum of 40% of the gross circulation and the maximum fiduciary issue should fixed at Rs. 1,200 mn, and (vi) free exports and imports of silver should be allowed without restrictions. There was a heavy demand for sterling in exchange of rupee at this rate and in the vain effort to maintain in the Indian Exchequer incurred a loss of Rs. 400 mn. apart from the great hardship it imposed on Indian Economy. This policy continued upto 1925 when England returned to the gold standard.

The Hilton-Young Commission (1925) recommended a Gold Bullion Standard for India, the main features of which were that "(i) an obligation was to be levied on the currency authority to purchase and sell gold at a certain fixed rate and in quantities of not less that 400 fine ounces. There was to be no limitations as to the purpose for which gold was needed but the conditions as to the sale of gold were to be so formed that normally the currency authority would not be called upon to supply gold for non-monetary purposes; (ii) "Sovereigns and half sovereigns were to remain legal tender but the rupee was to continue to be ful legal tender"; (iii) "the existing currency notes were to remain convertible into rupees but the new notes to be issued were not to be legally convertible into rupees. Facilities for conversion of currency notes into rupees were, however, to continue to be provided"; (iv) "the Commission recommended that the exchange value of the rupee should be fixed at 1s. 6d. (gold) per rupee." The Government accepted the recommendations of the Commission and they were incorporated in the Currency Act of 1927 which established 1 s. 6 d (gold). The Act demonetized sovereigns and

half sovereigns but an obligation was placed on the Government to receive them at Currency Offices and Treasuries at their bullion value.

The Act did not introduce a Gold Bullion Standard as was cherished by the Commission, but, only a Sterling Exchange Standard. As sterling was convertible into gold up to Sept., 21, 1931, when U K went off the Gold Standard, for this period it could also be called a Gold Exchange Standard. In this way, the net result of the Commission's recommendations was to introduce the Gold Exchange Standard against which they had made observations. After U.K. went off the Gold Standard, India was on the Sterling Exchange Standard, and Government maintained the exchange value of the rupee 1 *s*. 6 *d* sterling. The action taken by Government on the recommendations of the Commission had effects on India : (*i*) as the rupee was over-valued to the tune of 12½%, it handi-[illegible] establishment of a Central Bank bore fruit and the Reserve Bank was constituted that the inelasticity of Indian currency was overcome and the amount of currency in circulation could be properly co-ordinated with the requirements of commerce and industry.

Q. 67. Criticise the main recommendation of the Hilton Young Commission. *(Pb. B.Com. 1976)*

Ans. One of the chief recommendations of Hilton Young Commi- [illegible] India. The Commission rejected [illegible] for a Gold Currency Standard. [illegible] dinary medium of circulation in India should remain as it existed, currency notes and silver rupee and the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold for purposes. Gold must not circulate ever.

The currency authority will be under obligations to purchase and sell gold at fixed rates but in quantities of not less than 400 oz. as regards sale. This limitation on the quantity was aimed to prevent the dissipation of the country's gold reserve on flimsy grounds. The fact that local currency unit would be convertible into gold for all purposes, internal and external and vice-versa instead of convertible into sterling or any other foreign currency, would secure both stability of price and stability of exchange. The currency system would also become elastic as the currency would expand when notes and rupees were given in exchange for gold and would contract when gold was given in exchange for rupees and notes by the currency authority.

To prevent the existing hoards of gold coins from entering into circulation they suggested that sovereigns should be demonetised. Sovereigns may become legal tender again when India will have sufficient gold reserve for the introduction of a gold currency and if she decides in favour of a gold currency.

The Commission also recommended that the selling rate of gold in India should be equal to the par value plus the cost of importation of gold from London. In other words, the selling price of gold in India should be higher than that in U.K.

Finally in order to create ... fidence in the new standard, the Comm... saving certificates in denomination ... totals and payable in 3 or 5 years ... according to the ... holder ... certificates would ... the Comm... of the ...

The gold bullion standard had all the advantages of a gold standard namely safety, elasticity and popular acceptability without the disadvantages of the gold required would not be given effect to at once.

But the Indian opinion did not accept the proposals with any enthusiasm The people of India wanted gold circulation as a visible proof of the gold standard. The provisions that gold would be sold only in amounts of not less than 400 oz meant, practically that only banks and bullion dealers would be able to get gold for currency Again the provisions that the selling price of gold would be higher than that of England, clearly meant that the old game of utilising Indian gold and gold dues for benefit of the London money market would be continued. Again the saving certificates were a poor substitute to the popular demand for gold coins. Above all the recomm... vereigns, while no such step was taken in ... gold bullion standard, added to deep-ro... the currency policy. The people regarded the proposed system as a camouflaged gold exchange standard of the pre-War model.

Another important recommendation was the adoption of 1 s. 6d. ratio as they believed that at that rate the rupee prices had already been adjusted to the world prices. They also held that as prices and exchange had already been stable, it can be assumed that wages had already been adjusted to the price-level. The Comm... new exchange rate on vario... the conclusion that the new ... derably A change in the ra... term contracts, wages, etc. ... whole economic system for nothing. It was also pointed out that it was more economical to the Government in paying the home charges.

Arguments against the 1 s 6d. ratio. Sir Purshotamdass Thakardass in vigorous Minute of Dissent severely criticised the recommendation of the 1 s. 6 d. ratio. He held that to raise exchange ratio the Government had to affect great currency contraction He held that the adjustment had not ... Hence according to him it involve... manufacturers and gave a bounty ... orts into India. He also held that ... the agricultural

debtors since rural debt being usually long-term debt was contracted on the basis of 1 s. 4 d. which was prevalent in pre-War time. He also held that the Commission took into account the adverse effect of 1s. 4d. rate on the middle class of fixed salary group which constituted only 27% of the population but completely ignored the adverse effect of 1s. 6 d. on the agriculturists which constituted 70% of the total population. In addition he pointed out that the then existing wage rate was sufficiently high to cover the price rise consequent upon 1 s. 4 d ratio.

In addition, he argued, that 1 s. 4 d. ratio would bring about greater prosperity in agriculture and industry and thereby create greater employment opportunities. Hence even if any slight adverse effect resulted in the real wages of workers it would be more than compensated by greater employment chances. On the other hand 1 s. 6 d. ratio was bound to injure industry and agriculture

Critical evaluation of the ratio controversy. The ratio controversy created a lot of heat and bitterness. Right from the time when the proposal for 1 s. 6 d. ratio was made upto 1939 when the Second World War broke out there was continued agitation to revert to the 1 s. 4 d. Ratio. It may be mentioned that right from 1927 the exchange proved weak and the Imperial Bank rate was raised from 6 to 7% and in 1928-'29 to 8%. The depression of the thirties and the fall in world-prices further brought about a weakening of the exchange and the currency had to be contracted in India to the extent of Rs. 32 crores so that the Calcutta index fell from 140 to 125 in 1930. In 1930-31 the exchange continued to be weak and currency had to be further contracted so much that price index fell to 100. In 1931 the situation was more critical and gold had to be further contracted and the price index fell to 92.

In September 1931 when England went off the gold standard, India was not able to maintain the 1 s. 6 d. (gold) ratio. The Indian rupee had to be linked to Sterling at 1 s. 6. d.

When the establishment of the Reserve Bank was being considered Sir Purshotamdass Thakardass forwarded a strong plea for the review of the ratio and an agitation was carried on by the Indian currency value against the 1 s. 6 ratio.

In 1935 Mr Manu Subedar suggested a review of the ratio with a to raise the prices to give relief to the agriculturists but the Government stoutly opposed any change.

Again in September 1936 owing to the devaluation of the Franc and other currencies of the gold standard countries, the issue was raised in the legislature but was defeated by the casting vote of the President.

Yet the agitation for devaluation continued and the Indian National Congress took up the question. Once again an unsuccessful attempt was made in the Indian legislature to secure the appointment of a Committee.

But when the proposal was put by the majority to fix the ratio of 1s. 6d. the most important question to be settled was whether the rupee prices were adjusted to the world prices at that rate. The majority of the Hilton Young Commission believed that such adjustment had taken place. But that belief was not based on facts since index numbers especially in India because of the imperfect method of their compilation are not a reliable guide. Again the Commission itself admitted that wages in cotton and the iron and steel industry had not been adjusted. The Commission also could not not prove the adjustment of agricultural wages. So also was the case with contracts. The assumption that the contracts came into existence during the period of exchange uncertainty following 1917 was obviously incorrect with regard to many long term obligations of the ryots and other classes.

Equally shaky was the popular case for 1 s. 4 d. Too much was made of the fact of the prevalence of 1 s. 4 d rate over a long period of time before 1917. The advocates of the 1 s. 4 d. ratio seem to have conveniently neglected the far-reaching changes brought by the War-time and post-War disturbances.

It may be concluded that it is difficult to say which side was more convincing.

Q. 68. When and how was Gold Exchange Standard first introduced in India? Examine its working and explain the circumstances under which it came to be finally given up in our country.

[(*Pb. M. A. 1976 ; B. A. (Hons) 1975*)]

Ans The Evolution of Gold Exchange Standard in India. As desired by Fowler Committee, the sovereign and half sovereign were made legal tender in India at Rs. 15 to the £. Active steps were taken to set up a mint for the coinage of gold in India, but the scheme could not be put into practice in 1902 mostly because of technical dificulties raised by British Treasury. The Govt. made honest efforts to persuade people to make use of sovereigns The currency offices were instructed to offer sovereigns to those who presented notes and offer rupees to those who objected to sovereigns. The Post Offices were ordered to follow these guidelines The results were not satisfactory and a large number of gold coins were coming back to the Govt treasuries. They became so unpopular that in certain places sovereigns went to a discount of as much as 4 annas. Govt. found itself unable to cash currency notes in rupees at various centres. Increased demand for rupees on account of famine conditions and the inadequacy of its supplies aggravated the general monetary stringency. Consequently, the Govt. was compelled to resume the coinage of rupees early in 1900. Provision was made whereby the gold of the paper currency reserve kept in London could be utilised for buying silver which was to be treated as part of the reserve against notes in circulation during the interval between the purchase of silver and its coinage. These provisions were made permanent by the Act of 1902 In the year 1902 the Secretary of State issued currency notes against gold, the exchange rate being @ 1 s 4d. per rupee in 1904. The Gold Exchange Standard was maintained by this

method To facilitate these transactions, the Gold Standard Reserve was created out of the profits from coinage of rupees.

Three features of Gold Exchange Standard were as follows :—

(1) "The internal currency consisted of notes and the rupee which, though a token coin, was also the standard of value. There were also small subsidiary coins which were limited legal-tender. There were also in circulation sovereigns in a limited quantity."

(2) "The rupee was convertible into gold only for external purposes @ 15d. to a rupee."

(3) "The sterling (gold) value of the rupee was regulated between 1 s. $4\frac{1}{8}$d. (the upper specie point) and 1 s. $3\frac{29}{32}$d. (lower specie point) through sale of Council Bills and Reserve Council Bills respectively.

Working of Gold Exchange Standard. The Gold Exchange Standard worked in India between 1900 and 1917 quite smoothly until it broke down during the First Great War (1914-18). It worked by the sale of Council Drafts and Reverse Council Drafts. Council Drafts or Rupee Drafts were orders by Secretary of State to pay rupee. These orders when sent by post were called Council Bills and when by telegram, were called Telegraphic Transfers. These orders were sold to English Banks, firms and importers in exchange for Sterling obtained from them. The net result to the sale of Council Drafts was that Secretary of State got Sterling and the Govt. issued an equal amount of rupees. The sale of Council Drafts was one facet of Gold Exchange Standard, the other being sale of Reverse Council Drafts. They were orders of Government of India to Secretary of State of pay sterling in return for rupees. Its result was that Govt. received rupees and Secretary of State issued from his fund sterling. By the sale of Council and Reverse Council Drafts, the exchange was prevented from a fixed rate 1 Re.=1s. 4d.

Breakdown of Gold Exchange Standard. The World War I resulted in a general loss of confidence on the part of public and there was a rush for encashment of notes and withdrawals of deposits from the banks. The Exchange also indicated signs of weakness. But soon the Govt. was able to restore confidence by providing sufficient facilities for encashment of notes and for withdrawal of deposits.

The real trouble emerged in 1916 when demand for rupees rose due to the following causes :—

(*i*) The increased favourable balance of trade was due to (*a*) falling of imports due to shipping difficulties and other circumstances of War ; (*b*) stimulation of exports on account of great demand for Indian materials of war purposes on the part of U.K. and her Allies.

(*ii*) Demand for currency was aggravated because of the requirement for making payments on account of troops engaged and supplies in the Eastern sectors of War.

(*iii*) There was need for financing purchases in India on behalf of the Dominions, Colonies and America.

(iv) As silver could not be imported to liquidate the favourable balance of trade on account of War-time restrictions, the demand for rupees was aggravated much.

The Government had to purchase silver at rising prices from 27*d*. per *oz*. Prices increased to 43*d*. in 1916 and 55*d* in 1917 and 89*d* in 1920 This increase was due to (*i*) shortage of supply ; (*ii*) heavy demand for silver chiefly for coinage purposes, (*iii*) depreciation of sterling in terms of dollar due to unpegging of sterling-dollar exchange in 1919.

From Aug., 1917, rupee ceased to be a token-coin. It paid people to melt it and sell it as silver. It was not possible for the Government to buy silver at the rising prices and supply rupee @1*s*. 4*d*. without incurring heavy losses. The Government was forced to increase the sterling exchange rate of 1 *s* 5*d* per rupee in Aug., 1917 and shortly afterwards gave up all attempts to fix the rupee sterling exchange rate. With each rise in price of silver and the value of the rupee, the rate of exchange also increased till it touched an all time high of 2*s*. 10½*d*. at the beginning of 1920.

(*i*) Government bought silver as much 20 crores fine *oz*, (*ii*) she also took measures to exclude private purchasers from the silver market and from 3rd Sept., 1917, import of silver on private account was banned, (*iii*) she also increased the rate at which Councils Drafts were sold as the price of silver increased.

In spite of all these measures the Government was not able to maintain the exchange at an artificial level and thus the Gold Exchange Standard broke down. Thus the Gold Exchange Standard in India was one of the casualities of the World War I. The break-down of the Gold Exchange Standard in 1917 gave a severe blow to commerce and industry in India and reduced the proportion of metallic reserves. India kept against currency from 79% in 1914 to 50% in 1919.

Q. 69. Discuss the main changes which the Second World War brought about in the Indian Currency and exchange system

(Pb. M.A. 1976)

Ans. Effects of World War II were far-reaching on Indian currency than on any other sphere of economic activity.

(1) **Expansion of Currency and the consequent Inflation.** Dr. D.K. Malhotra writes, "Among the various war-time developments in the sphere of Indian currency, the enormous expansion of currency overshadows all others by its spectacular character, its wide sweep and direct impact on the daily life of the common man." The amount of notes in actual circulation which stood at Rs. 1,821·3 mn. on Sept. 1, 1939, increased to Rs. 1158·5 mn. on Oct. 19, 1945 (more than 600% increase). The phenomenal expansion of currency naturally led to an unprecedented rise in prices. The Economic Adviser's Index indicates than by Jan., 1945, it had increased to 250·3 (base year being 1931 = 100) As a matter of fact War and post-War inflation had very serious repercussions on the economic condition in the country.

(2) **New Notes and Coins.** Silver price increased putting the silver rupee at a premium. So the silver content of the rupee, the half rupee and the quarter rupee was lessened from $\frac{11}{12}$th fine to $\frac{1}{2}$ fine. To meet increased demand for lower denominations of currency and to economise the rupee coin, one rupee notes were issued in 1940 and two rupee notes were issued in 1943. It was declared an offence to possess small coins in excess of personal needs. New smaller coins were issued with lesser metallic content because copper and nickel prices were also inflating.

(3) **Exchange Rate.** For many years before the War, there had been a great strain on the Indian rate of exchange *viz.* 1*s* 6*d* There was a continuous demand for its reduction to 1*s* 4*d*. However, as a result of the War, with the growth of exports and rising favourable balance of trade year after year, the question of devaluation did not come. The rupee became strong in the exchange market.

(4) **Exchange Control.** Exchange control in India was introduced during War under Defence of India Rules and Reserve Bank was empowered to administer it so as to conserve and mobilize the country's foreign exchange resources and also to prevent flight of capital from India. All transactions in foreign exchange were to be conducted through the Reserve Bank or through authorised dealers appointed by it. Holdings of balances in \$ and other foreign currencies were acquired as also the proceeds of foreign exchange from exports to hard currency area. These were contributed to the Empire Dollar Pool which was mostly used by Britain for obtaining supplies from America. This exchange control with minor changes was extended after War and is a very important feature for Indian Exchange System today.

(5) **Change in Reserve Percentage.** The paper money was issued mainly against sterling obtained in London by Reserve Bank against the sale of goods to His Majesty's Government by India. The composition of the reserve thus underwent a great change. At the start of War, the reserve consisted of 35% of silver coins, 20% gold, 28% of sterling securities and 17% of rupee securities. On 26th Jan., 1945, the reserve consisted 5 6%, 4·4%, 85·1% and 4 8% respectively.

(6) **Accumulation of Sterling Balances.** India accumulated huge sterling balances during War-period. At the beginning of War, they amounted to Rs. 640 mn. but at the end of War, they stood at Rs. 17,330 mn. They were accumulated because of following reasons :—

(*a*) The War expenditure of Indian Government increased enormously. Part of it was agreed to be borne by British Government. The British Government paid in form of sterling securities.

(*b*) During the War, India had a heavy favourable balance of trade which was paid in terms of securities.

(*c*) The \$ and other not sterling assets were forcefully acquired which were held by India Payment for these assets as also payments against American military expenditure in India were made in terms of sterling securities.

(*d*) The Indian balance in the Empire Dollar Pool was also credited in India through sterling balances. Against the sterling securities received, Reserve Bank issued and paid rupee notes equivalents.

(*e*) Considerable stores and materials were bought by British Government and the Allied Nations during War. Other military expenditure was also incurred. For these Reserve Bank supplied rupees by printing notes against the receipt of equal amount of Sterling Balances in London.

(7) *Price Control.* Under the Defence of India Ordinance and the Defence of India Rules drawn, price control was introduced on necessaries and essential imports in short supply. Limits were fixed to the rise in prices above the prices-ruling on Sept. 1, 1939. The black-market which developed with price control led to huge concealment of fortunes and widespread tax-evasion.

(8) *Reserve relating to Rupee Securities.* Another change is in respect of reserves related to the rupee securities. According to Reserve Bank Act, 1934 Reserve Bank could not issue notes against rupee securities beyond Rs. 520 mn. By an amendment of the Act in 1941, this limit was removed. We find that Second World War practically threw all the currency problems into the background and created new ones. Most of these changes have been very persistent and have largely given the Indian currency and exchange their present form.

"Indigenous banking in India is almost as old as the Rigvedic Civilization, but it was in the 19th century that banking on modern lines was started in India."

27

BANKING

Q. 70. Review briefly the growth of Indian banking since 1860.
(Panjab B.A. (Hons) 1975)

Ans. The first Indian joint stock or commercial bank named the Bank of Hindostan was set up in the year 1700. The bank issued notes to the extent of 20 lakh rupees. In 1785, 2 more banks *viz.* the Bengal Bank and the Central Bank of India, were set up. The notes that were first accepted by the Govt. were those of the Central Bank of India which had about 42 lakh rupees worth of notes in circulation in 1820. During 1829-32 there was a crisis in the Agency Houses, and these banks were liquidated.

The second phase of the Indian banking development was related to the establishment of the Presidency Banks. The Bank of Bengal was started in 1836, by a Charter issued by the East India Company with a capital of Rs. 50 lakhs, Rs. 10 lakhs being subscribed by the Govt. The First Bank of Bombay was set up in 1840 with a capital of Rs. 52 lakhs, Rs. 3 lakhs being shared by the Govt. This Bank failed in 1868 because of its taking part in unhealthy speculation caused by the American Civil War and the consequent cotton boom. A Second ank of Bombay was started in the same year with a capital of Rs 30 lakhs. The Madras Bank was established in 1843 with a capital of Rs. 30 lakhs, Rs. 3 lakhs being subscribed by the East India Company.

The [illegible] rade in India needed organised banki[illegible] the Presidency Banks which were [illegible] various restrictions and which had t[illegible] or the exchange banks, which were mainly pre-occupied with foreign commerce finance, were able to meet the requirements of the country in this respect. Until 1860, when the principle of limited liability was recognised for the first time in India, the progress of organised banking was very slow. The Act of 1860, gave stimulus and in 1863 Upper India Bank was established. This was followed by Allahabad Bank in 1865 and Alliance Bank of

Simla in 1875. Till 1880, the economic conditions were stagnant and prices were declining ; hence there was no growth in banking. After 1880 banks improved to some degree, but in the next decade they gained substantially. The first purely Indian joint-stock bank, the Oudh Commercial Bank, was set up in 1891. It was followed by the Punjab National Bank (1894) and the People's Bank of India (1901). In 1870, seven such banks were in existence. By 1894 their number had increased to 14.

The Swadeshi Movement of 1905 gave a great fillip to Indian banking movement. The steady increase in prices and the large increase in the volume of currency after 1898 speeded the momentum There was ■ mushroom growth of banks in the first decade of the present century. It was to this decade that the Bank of India, Bank of Burma, the India Specie Bank, the Central Bank of India. The Indian Bank (Madras), the Punjab and Sind Bank, The Bank of Mysore, The Bank of Baroda and The Bombay Banking Company owned their origin.

But most of these banks were not financially sound and many of them c llapsed at the emergence of the first banking crisis in 1913, when People's Bank collapsed followed by the collapse of 55 other banks. The First Great War (1914-18) enabled the surviving banks to better their position and the banking companies began to develop again. In 1913 Lord J. M. Keynes advocated the formation of a strong Central Bank to do some functions of independent treasury. The breaking out of the First World War prevented anything from being done at that time, but in 1921 the 3 Presidency Banks were amalgamated to form the Imperial Bank of India, which opened 100 new branches by 1925-26, in which year it had in all 161 branches in addition to 20 sub-agencies. As a result of the recommendation of the Royal Commission on Indian Currency and Finance (1926) it was proposed to establish a central reserve bank. After considerable amount of delay the Reserve Bank Act was passed in 1934, to regulate the issue of bank notes and the keeping of reserve with a view to attain monetary stability and operate the currency and credit system of the country to its advantage.

By the Reserve Bank Act of 1934, the Reserve Bank became the banker to the Government and had to undertake the usual functions of the Central Bank. Under the Act, the Reserve Bank was to be a share-hold[illegible]s 50 mn. rupees, divided into shares of [illegible] Reserve Bank was to establish offices in [illegible] and Rangoon and a branch in London. It could establish branches or agencies in any other place in India and with the consent of Governor-General-in-Council elsewhere.

The management of the bank was entrusted to a Central Board of Directors consisting of sixteen members – a Governor and two Deputy Governors appointed by the Governor-General-in-Council,

four Directors nominated by the Governor-General-in-Council, eight Directors, elected on behalf of share-holders and one Government official.

The Bank might accept deposits without interest from Government, local authorities, banks and any other person. The Bank could buy, sell or re discount, bills of exchange and promissory notes arising out of bonafide commercial transactions bearing at least 2 good signatures, one of which shall be that of a scheduled bank and maturing within 90 days.

The advent of Great Depression in 1929 was responsible for a large number of bank failures in India during 1931-36. No less than 238 banks were closed. In 1936 the first Indian Exchange bank "Central Exchange Bank of India" was set up in London by Sarabji. It was amalgamated with Barclay's Bank London in 1938. The both, India Bank crisis of 1938 showed the necessity of the scheduled Banks maintaining closer touch with the Reserve Bank, so as to give it a clearer idea of their working and put it in a position to give credit to deserving banks without delay. The Indian banks faced the storm of the World War II as well. There were heavy runs on them but they met them with confidence. Even the occupation of Burma by Japan which brought war to the doors of India, did not shackle their position. There was a huge increase in total deposits of the scheduled banks from Rs. 2,400 mn. in 1939 to Rs. 19,430 mn in 1940 There was a large expansion and the demand liability of such banks rose from Rs. 1,400 mn. in 1930 to Rs. 7,040 mn. 1959. A few large commercial banks like Bharat Bank and the Bank of Jaipur were floated in 1943. The number of scheduled banks rose from 58 in 1939 to 93 in 1946. After the War, inflationary conditions were on. This time liabilities of banks went on increasing till they reached 3,490 mn. in 1944, but condition started dwindling thereafter The partition of India brought first set-back. The working of the banks in the Punjab and Bengal was greatly hindered and some of them were crippled. By the Reserve Bank Act of 1948, Reserve Bank was nationalised and passed into Government ownership, to ensure a greater co-ordination of the monetary, economic and financial policies To facilitate the amalgamation of weak banks, the Banking Act was amended in 1950. The Comila Banking Corporation, the Comila Union Bank, the Hoogli Bank and the Bengal Bank were amalgamated in 1959 into United Bank of India. On the same lines, the Bharat Bank was amalgamated in Punjab National Bank in 1951.

All India Rural Credit Survey Committee recommended the creation of a State Bank of India by amalgamating some States' associated banks with Imperial Bank. Accordingly State Bank of India was established on July 1, 1952 In 1959-60, 8 major States associated Banks of Patiala, Jaipur, Mysore, Bikaner, Hyderabad, Saurashtra, Indore and Travancore, were duly made the subsidiaries of the State Bank.

Nationalisation of Indian Commercial Banks had been one of the goals, the Congress Government had set for itself ever since it had adopted the Socialistic Pattern of Society as political creed. The issue had been hanging fire for almost two decades and it was customary for writers on Indian Economic Development to discuss threadbare the pros and cons of such a step with a purely academic flourish. But no more such futile academic discussions are needed By an ordinance promulgated on July 19th, 1969, the Government of India nationalised 14 of the biggest Commercial banks incorporated in India. In a broadcast to the nation, the Prime Minister explained the background to the decision and also indicated how Government proposed to operate the nationalised banking system Mrs. Gandhi stated that this important step taken at the beginning of the new Plan period, "will facilitate the achievement of the aspirations we all share for our great country."

Q. 71. Trace the evolution of Central Banking in India upto 1947. *(Pb. B.A. (Hons.) 1978)*

Ans. The idea of setting up a Central Bank in India is more than 100 years old. As early as 1836, a large body of merchants interested in the East Indies put forth a scheme for Central Bank which would bring monetary stability in India. The establishment of the Presidency Banks ended the idea of an all-India Central Bank. The Presidency Banks did some of the Central Banking functions They had close relations with the Government. They had the right of note-issue subject to certain limitations and a monoply of Government banking In 1962, the right of note-issue was taken from them and they were given the privilege of using the Government balance in the Presidency towns free of any charge. They also acted as a bankers' bank, frequently held the uninvested cash of various other banks and helped other banks in difficult times. Yet the Presidency Banks were not full Government banks. The Government held the large part of their own cash balances in their treasuries.

In 1967, the idea of a Central Bank once again emerged, though this time the proposal was to amalgamate the 3 Presidency Banks. But nothing could be done for the time being.

In 1921, the 3 Presidency Banks were amalgamated to form the Imperial Bank of India. Frankly speaking the Imperial Bank was not a genuine Central Bank, which combined the functions of a commercial bank with those of a Central Bank. The Imperial Bank was unsuitable as a Central Bank The Hilton Young Commission, to get rid of the division of responsibility, to remove the cumbersome duplication of reserve and to eliminate the dependence of currency expansion on the will of the monetary authority, recommended the setting up of Reserve Bank of India as the Central Bank. The Commission rejected the idea of converting the Imperial Bank into a Central Bank. Owing to the difference of opinion between the Government and the legislature, the Bank could not be set up at that time. The case for the formation of a Central Bank was brought by the strong recommenda-

tions of the Central Banking Enquiry Committee. The significance of such a banking institution was also underlined by the Federal Structure Sub-Committee of the First Round Table Conference. The R.B. of India Act was passed in 1934 and the Bank was established in 1935.

Nature and Functions of the Reserve Bank. Its capital was Rs. 50 mn. divided into fully paid-up shares of 100 rupees each. The country *was divided into 5 regions—Bombay, Calcutta, Madras,* Delhi and Rangoon and shares were assigned to each region. The Bank was a private share-holders' bank but it was effectively supervised by the Government. The Governor-General appointed the Governor of the bank, some directors and other important officals.

The R.B. may accept deposits without interest from Government and local authorities. [illegible] discount bills and promissory notes [illegible] transactions, bearing at least 2 good signatures, one of which shall be that of a scheduled bank and maturing within ninety days. In case of Agricultural bills, the period allowed was nine months and one of the [illegible] beduled bank or a provincial Co-opera- [illegible] to purchase from or sell to scheduled [illegible] t less than Rs. 1 lakh and maintain [illegible] e effectively at 1*s.* 6*d.* It could give [illegible] ates, local authorities, scheduled banks or provincial co-operative banks repayable on demand or on the expiry of a fixed period of ninety days It could also give advance to the Central Government and Provincial Governments repayable within ninety days. The Bank was also empowered to do open-market operations and other functions incidental to the exercise of its power and duties. The Bank was given the sole right to note-issue. The note-issue was based on proportional reserve system. Every bank with a paid-up capital and reserve of 5 lakh rupees and over, was to keep a deposit with the R.B. of not less than 5% against demand liabilities and 2% against time liabilities. They had to send weekly returns and balance sheets to the R.B. Upto 1938 the non-scheduled banks were out of purview of the supervision of the R.B.

Defects. One of the chief functions of the Central Bank is to control credit. But in our country the ability of the R.B. to control credit is limited not only by the unorganised nature of the market but also by several institutional factors. (1) The position of the Imperial Bank of India was so pre-eminent that it was very difficult for the Reserve Bank to bring it under its control. (2) The Exchange bank could easily frustrate a policy initated by the R.B. because of their easy access to the London money market. (3) The R.B. could not directly influence the market-rate prevailing in the unorganised section of the money market.

The efficiency of the Central Bank's power of controlling also been shattered by the narrow definition of 'eligible' paper R.B. could re-discount.

The Effect of the World War II. During the World War II the Reserve Bank by increasing the volume of notes issued enlarged the cash reserves of the commercial banks and enabled them to invest in Government securities. The bank also helped the Government to borrow at low rates of interest from the public by controlling the prices of securities by means of open market operations. But the Bank failed in keeping prices stable in India. There was abnormal inflation in prices during the War time.

The War also brought much increase in the powers of the Reserve Bank. The statutory restrictions on note-issue were relaxed, an Exchange Control Department was set up. The Banking Companies (Inspection) Ordinance, 1946 gave the Reserve Bank power of regulating branch-banking activities of commercial banks.

Nationalisation. At the time of the independence, Reserve Bank was a private shareholders' bank. It was nationalised in 1948 when the Government passed "Reserve Bank of India (Transfer to Public Ownership) Act, 1948". There were various reasons for the nationalisation of the Reserve Bank. *Firstly*, on the achievement of Independence, there was an urge to nationalise all the possible industries. *Secondly*, it was noticed that in most of the countries of the world the Central Banks were nationalised. We also followed in the foot-steps of the other countries and nationalised the Reserve Bank which was the Central Bank of the country. *Thirdly*, it was necessary that there should be sufficient co-operation and co-ordination in the monetary and fiscal policies of the Government. Such an objective could be achieved only if the Central Bank was under the control and ownership of the Government. Unlike the case of nationalisation of the Imperial Bank, there was no opposition to this step because the Reserve Bank was already closely regulated by the Government. The share-holders were given a compensation at the rate of Rs. 118-10-10 for every share of Rs. 100 The figure of compensation was arrived at by taking the average share price of the 12 monthly averages in the preceding one year. The compensation was made payable partly in cash and partly in promissory notes bearing interest at 3% per year. The management of the Reserve Bank was entrusted to a Central Board which consisted of a Governor, a few Deputy Governors and a Board of Directors. The Board of Directors consisted of 10 persons; 6 of whom were nominated by the Central Government and 4 others were nominated by 4 Local Boards, which represent the territorial and economic interest of the country. Since 1964, the number of directors is 12, most of them being nominees of the Government.

"India has had been in the grip of inflationary pressures."

28

PRICES

Q. 72. Describe the changes in prices in India : (*a*) 1914-29 and their effects on industrial labour ; (*b*) 1929-39 and their effects on farmers.
(*Bom. 1970*)

Ans. (*a*) The period 1914-1919 experienced steep rise in prices. This was mainly due to the Great War. During the World War I, there was an enormous increase in currency. The notes in circulation rose from Rs. 2,270 mn. in 1914 to Rs. 3,620 mn. in 1919.

The banks also increased credit. On the other hand, there was a fall in imports. Imports declined because the War necessitated enhanced output of ammunition and armaments which diverted labour and resources from other industries. This prevented U.K. and the Allies to maintain their previous level of exports to India. Germany being a fore country went out of the picture. Also there was insecurity on the sea, higher insurance and freight changes and restrictions on imports and exports. All these restricted the availability of goods in our country.

The failure of rains in 1918-19 and 1919-20 and the consequent bad harvest accentuated increase in prices.

But the favourable harvests of 1914-17 alongwith Government control kept the prices of food-grains from mounting while the prices of certain imported goods such as cloth, kerosene and salt increased abnormally. The main feature was the disparity in the price of exports and imports. The following conclusions may be had from the Bombay and Calcutta index numbers. The rise in price of farm goods except raw cotton was less than the increase in price of particular imported goods. There was only a temporary increase in the price of farm goods consequent on the bad harvests of 1918-19 and 1920-21. The increase in price of the largely imported products like sugar, cloth and metals continued till 1920-21.

During the period 1920-29 the prices experienced a downward trend. This was chiefly due to the policy of deflation followed by all countries. After 1926 the fall in prices in India was assisted by the exchange policy of the Government. The fixing of the rate of exchange at 1s. 6*d* per rupee was attributed to be a major cause for the f prices in India.

Some are of the view that the increase in prices during the perio 1914-1-21 led to a period of prosperity for the farmers. But this is no true. Only those rich peasants who had a marketable surplus benefitec from the increase in prices. But even here it must be remembered that the large part of the profits of increasing prices went into the pockets of the middlemen. Moreover, the fact that the prices of farm goods did not increase as fast as those of industrial goods meant that the farmer had to pay much higher prices for his requirements Thus we may conclude that the farmers did not benefit much from the increasing prices during this period.

Effects on Industrial labour. Wages increased during this period. But the wages did not show a regular trend The wages though rose, were relatively less than the increase in prices. The increase in wages from 1914-29 was by about 50%. It is not easy to say by what extent the real wages of industrial labourers increased. In 1921 a cost of living index and an index of real wages were constructed which indicated rise from 3% to 45% since 1914 in real wages of all classes of cotton workmen. Dr. Vera Anstey concludes, "It is incontestable that economic progress had been made, both as regards the country as a whole and the working classes in particular...since 1914 prosperity has fluctuated and while rapid advance has been made in some directions, little or no progress seems to have been achieved in others. The balance was, on the side of progress upto the world-wide depression after 1929-30."

(b) Price Changes between 1929-39.

With crisis in the Wall Street in 1929 the Great Depression began which spread to all over the world. India was also affected by the depression. The prices fell very rapidly till Sept. 1931 when the movement slowed down by India going off the Gold Standard. The Calcutta price index fell from 140 to 125 in March 1930, and by 1931 the index had fallen to 92. The Depression also showed the same disparity in prices of export and import articles as was shown by the post-War boom. The slump was less pronounced in the case of industrial goods than in the case of agricultural goods.

After 1934 the prices started improving, except during 1937-38 when there was a set-back again.

Effect on Farmers.

The fall in prices made the position of the farmers in India extremely difficult. During the depression their income declined but the expenditure of the farmers did not fall to the same extent to which the farm prices declined. The result was a steep decline in the purchasing power of the farmers. The decline in the purchasing power of the farmers varied from place to palce being the highest in Bengal where it was 61·2% and lowest in Bombay where it was 30%. For the whole country on the average, it was 44·5%. Again land revenue and irrigation charges, interest on money borrowed in the past and land

rents did not decline. Hence he could not meet his obligations and his position grew steadily worse.

Q. 73. Examine the trends in price movements in India since 1951 and give the causes. Also examine Government Price policy.

Ans. **Movement in Prices during the First Plan (1951-56).**

One of the chief objectives of the First Five-year Plan was to check inflationary rise in prices. The remedial measures followed by the Government to reduce the prices were successful to some extent and prices showed a mild retreat after Jan. 1952. The First Five-year Plan was successful. In certain fields the output exceeded the targets. There was bumper crops. As a result of increase in in production during the First Plan period, the prices declined. The general price index number in 1951-52 (1952-53=100) was 118·0. At the end of the Plan it was 98 showing a fall of 20% in the general price level. Taking a few essential commodities individually the price index of food articles declined to 95 cereals to 88 and pulses to 77. There was a fall of nearly 29% in prices of industrial raw-material. The main reasons for the fall in prices in the First Plan were the satisfactory increase in the production of agricultural goods, less dependence on deficit financing and successful anti-inflationary policy.

Movement in Prices during the Second Five-year Plan (1956-61).

The Second Five-year Plan was a bolder Plan. It proposed for Rs. 1,200 crores deficit financing. However the actual deficit financing was of Rs 948 crores. It was indeed a heavy dose of deficit financing for an economy like India. The development and non-development expenditure of the Government also increased considerably. As a result of these factors, the prices rose. Thus right from the beginning of the Second Plan the prices started moving upward. Movement was mild in the beginning of the Plan but in the later 2 years of the Plan it became rapid. During the five years period of the Second Plan the general level increased from 98 (1952-53=100) in 1955-56 to 125·0 in 1960-61 showing an increase of 27%. Prices of manufactured goods increased by 24% and those of industrial raw materials by 43%. There were many causes for the rise of prices in Second Plan. The more important causes were rapid increase in population, increase in money shortfalls in the Second Plan, heavy increase in imports of fo… andcapital goods and as such critical balance of payments …

The table given ahead indicates the movement of prices Second Plan :—

Index Number (Base year 1952-53 = 100)

Year	Food Articles	Industrial Articles	All Articles
1952-53	100	100	100
1955-56	87	100	98
1958-59	115	106	113
1960-61	120	124	125

Movement in Prices during the Third 5-year Plan (1961-66). The price situation during the Third 5-year Plan completely deteriorated. This was due to major shortfalls in the production targets of the Plan. Although the Third 5-year Plan postulated deficit financing on strictly limited scale *i.e.*, Rs. 5,500 mn., but the actual estimates of the Third Plan revealed that deficit financing was of the order of Rs 11,500 mn. The 2 invasions on our soil, one by China in 1962 and the other by Pakistan in 1965, enhanced greatly our defence expenditure. Consequently the position of prices became worst and there was a rapid rise in prices. In the last year of the Plan the rains failed and there was drought. This further deteriorated the supply of food articles and their prices increased further. The general price index increased from 125 in 1960-61 to 165 in 1965-66, showing an increase of 40% in the general price level. During the Third Plan period the price of food articles was over nearly 50% but the rise in prices of industrial goods was rather modest. Because of the rapid rise in the prices of food articles, the masses in India had to suffer more heavily during this period. The following table shows the movement of prices during the Third Plan period :—

Index Number (Base year 1952-53=100)

Year	Food Articles	Industrial Articles	All Articles
1960-61	120	124	125
1961-62	120	127	125
1962-63	126	129	128
1963-64	137	131	135
1964-65	160	137	153
1965-66	169	149	165

Prices Since Third Plan. The up trend in prices noticed during last 4 years of 3rd Plan continued with added force till Oct., 1967 when the general index touched an all time record of 224·1 on Oct. 14, 1967. Thus the situation on the price front became very alarming.

Year 1967-68 From mid of Oct. 1967 there started a welcome trend on price front. The financial year 1967-68 as a whole closed with a fall of 1·1% as against an increase of 16·7% in 1966-67, 15.2% in 1965-66 and about 9% each in 196;-65 and 1963-64.

Year 1968-69. Over the year 1968-69 Indian economy experienced a fair measure of price stability. The general price index stood at 205 8 at the end of Feb. 1969 as compared with 205·6 a year ago.

Fourth 5-Year Plan.

Year 1969-70. The stability in prices seen in 1968-69 could not be maintained in 1969-70. In fact pressure on prices had started in the beginning of Feb. 1969. The general index of wholesale prices (1961-62=100) which stood at 106·9 during week ended Feb. 22, 1969 started increasing and touched its peak of 175·2 in the week ended July 26, 1969.

Year 1970-71. The price index of wholesale prices reached 180·6 during 1970-71 and prices rose by 3·5% as compared with that of 1969-70.

Year 1971-72. The year 1971 opened with a price situation which caused a great concern. The general index of wholesale prices stood at over more than 6 8% as compared with that a year ago.

Year 1972-73. During 1972-73 wholesale price index increased by 1%.

Year 1973-74. The price index of wholesale prices reached 265·9 for Dec. 1973 as compared to 211·0 for Dec 1972. It was 26% higher as compared to previous year.

5th 5-year Plan. After climbing by as much as 59 percentage points in 1974-75 over 1973-74, the height came down by 30 percentage points in 1975-76 to stand at 233. But the price level had a sharp up trend in 1976-77. And in the year 1977-78 there was no let up in the rising trend with the price level setting at a point higher by 5% over 1976-77.

6th Plan. In 1980-81 prices increased by 20% and in 1980-81 they rose by 17%.

Causes of Movement in Prices after 1951.

The main causes responsible for the rise in prices after 1951 are divided into two groups : (*a*) Demand forces and, (*b*) Supply forces.

(*a*) **Demand Forces.** The following factors gave birth to increase in demand and consequently raised the prices :

1. **Rising Population Pressure.** The rapid rise of population in India during the period after 1951 is one of the fundamental causes of rise in prices during this period in India. During 1951-61 population increased by 2·2% per year and since 1961 the rate of population increase has been estimated at 2.48% per year and since 1977 it increased again by 2·47% per year. At this rate of growth of population nearly 1·20 mn. people are added to our population every year. Although production increased more than the population, yet the increase in the production of food-stuffs every year has been less than the rate of increase in population. Thus the rising pressure of population has been responsible for the increase in prices in India since 1951.

2. **High Rate of Investment.** During 30 years (1951—81) India made big development investments. During this period a total investment of Rs. 4,29,600 mn. was made. Such a huge investment in the country

increased the demand of capital goods. Consequently, the prices of capital goods and their dependent goods rose quickly. The abnormal rise in the prices of these goods also affected the prices of other consumer's goods and so their prices also increased.

3. **Rising Government Expenditure.** Since 1951, there has been a continuous rise in Government expenditure. During the 5 Plans the Government had to make huge expenditure on development as well as non-development services. This increased expenditure on the part of the Government led to increase in demand of goods and services. Consequently, the prices of goods and services increased rapidly.

During 30 years (1950-51 to 1980-81) the increase in Government expenditure was 12 times, the increase in revenue expenditure was 10 times and increase in the capital expenditure was 22 times.

4. **Deficit Financing.** The deficit financing created by the Government during the Plans also considerably affected the price level. During the First Plan the dose of deficit financing was mild. It was of only Rs. 333 crores. Thus the prices during the First Plan period did not rise, rather they fell. But during the Second Plan Rs. 954 crores worth deficit financing was created (though originally the Plan envisaged deficit financing of Rs. 1,200 crores). This was too big a dose to be absorbed within the economy. Deficit financing during the Third Plan was estimated to be of the order of Rs. 1133 crores as against the proposed limit of Rs 550 crores. Thus the total deficit financing during all three Plans amounted to Rs. 2,420 crores. The deficit financing had crossed level of Rs. 2060 crores as against the original target of Rs. 850 crores of Fourth Plan. During Fifth Plan deficit financing was estimated to the order of Rs. 1,354 crores. During Sixth Plan the provision for deficit financing is of the order of Rs. 5,000 crores. The deficit financing of this order is a matter of concern when the economy is already showing [illegible] Deficit financing means the use of [illegible] ...lic expenditure and as such deficit [illegible]

5. **Increase in Money Supply.** Another factor for the rise in prices during the five Plan's period is the increase in money supply. Since 1951 there has been a regular increase in the supply of money. For example, during the First and the Second Plans money supply with the people increased by Rs. 22 crores and Rs. 65 crores respectively. During the Third Plan the money supply was further increased by Rs. 160 crores. The money supply (currency plus deposit money) was Rs. 2,020 crores in 1950-51. This rose to Rs. 2,830 crores in 1960-61 and to Rs. 7,193 crores as on March 1971 and further to Rs. 22,240 crores as on March 1982. As a result of this enormous increase in money supply, the prices were bound to rise.

[illegible] ...ention may be made of the use of [illegible] and is circulating to [illegible] deals in real estate and [illegible] situation of fast rising [illegible] ...ts real resources from

productive channels into unproductive uses. At the same time, this prevents productive activity from meeting the genuine need of money. Thus it not only feeds on the rise in prices, but it adds more fuel to the fire.

7. **Speculation and Hoarding.** Speculation and hoarding tendencies are also responsible for the rise in price The speculators and hoarders obtain credit from the banks and stock food-grains and other essential goods. Such unsocial activities on the part of these hoarders are responsible to reduce supply of these goods. Consequently, the prices of these goods rise.

(*b*) **Supply Forces.** If the supply of products does not increase in accordance to their demand, the prices must rise. In the First Five-year Plan, no doubt there was increase in the demand of goods but since during this period the supply also increased proportionately, there was no rise in prices. But after 1956 and especially after 1962, the demand forces on all fronts became the strongest. But during the same period the supply forces remained seriously crippled. There were shortfalls in targets of production of food grains and other essential commodities.

(*i*) **Inadequate Agricultural Output.** The inadiquancy of agricultural output to match the rising demand, in particular of food-grains, was an important factor causing the price level to rise from the supply side. Except in the First Plan when the country had bumper crops (and therefore a lowering of the price level), agricultural production has not been rising constantly With triennium ending 1961-62 as the base, the index of farm output and that of food-grains showed a fluctuating trend with the production index in 1965-66 and 1966-67 even below the base level. The index for all farm products was 102·7 in 1960-61 and 128 6 in 1974-75. As per new series with base of triennium ending 1969-70, the index was 86·7 in 1960-61 which rose unsteadily with downward dips here and there to 122.1 in 1981-82. Almost the same pattern characterised the production behaviour of foodgrains whose index started from 86·1 in 1960-61, fluctuated with dips in several years and rose to 134 in 1981-82. Shortages and the fluctuating character of production, caused mostly by the excessive dependence of agriculture on rains, contributed substantially to the price rise.

(*ii*) **Inadequate Industrial Production.** Industrial output, though not very unsatisfactory on the whole, has not been adequate from the angle of the supply of certain categories of consumer goods relevant for the prices rise. The index of consumer goods industries was 164 in 1974 over the base 1960. The index of industries, producing non-durable goods like sugar, vanaspati, oil, tea, cigarettes, soap, matches, etc., was only 144. As against this, the production index of basic industries was 255; [illegible] and of intermediate goods industries, 17[illegible] index for consumer goods industries in [illegible] of non-durable consumer goods 137. [illegible] for basic industries [illegible] 171 of capital goods industries 139 and that of [illegible] industries 172.

While the above pattern of industrial production reflects the strategy of industrialisation that was adopted for the country, at nevertheless points to the fact of inadequacy of the rise in the quantum of consumer goods as against the large rise in the demand for these goods.

(iii) **Speculative Stocks.** Speculative activity has *adversely affected* the price situation. A psychology of rising prices leads to with holding of supplies at several points, cutting down the quantities that ultimately find their way into the market. Apart from the hoarding on the part of consumers who try to protect themselves from further rise in prices, suppliers also increase their stocks for speculative purposes. The producers withhold a part of the produce to cash only. Thus the supply of goods and services was left much less in relation to their demand and this increased in general price level.

Price Policy. The Goverment undertook many measures to stabilise the prices. Since the rise in prices was mostly due to the shortfalls *in the agricultural production and rapid increase in money supply, the* price policy included measures to control the money supply ; prices of essential goods and their distribution. Thus the main object of the price policy has been to reduce the pressure of excessive demand. The price policy consists of the following measures :—

Fiscal Policy. Heavy expenditure of the Government and heavy doses of deficit financing during the Plans were the major causes of the rise in prices. Thus in order to combat inflationary rise in prices, it was essential to restrict the expenditure of the Government and limit the deficit financing Thus the budgetary policy of the Government was made to achieve these two objectives. Another object of the price policy has been to *restraint consumption and encourage saving. During 15* years of planning the Government has levied a number of new taxes and increased the rate of many old taxes. This has been done to reduce private expenditure and encourage saving.

Monetary Policy. One of the important functions of the Reserve Bank is to maintain price stability in the country. The powers of supervision and control of the Reserve Bank were greatly increased since 1956. Now the Reserve Bank possesses wide powers over the [illegible] Under the Banking Companies [illegible] authorised to adopt a policy of [illegible] in excess of Rs. 50,000 to any party. [illegible] subsequently withdrawn and again re-issued for food-grains, sugar, cotton textile, etc. In the year 1962-63, the selective controls were also extended to advances [illegible] except wheat. In Apr[illegible] margin of 45% on [illegible] policy of selective con[illegible] poses only, since the [illegible] for credit to small-sc[illegible] houses. The Reserve Bank imposed on Dec. 26, 1973 certain restrictions

on advances against cotton, oilseeds, oils, food-grains, sugar, gur by co-operative banks.

Government's Measures. In order to control the undue increase in the prices of food articles and other essential commodities, the Government took the following steps :—

(1) **Fixing of Minimum Prices.** The Government has instructed the State Governments to fix the whole-sale and retail prices of food-grains. Accordingly, the State Governments have fixed the whole-sale and retail prices of these commodities. This step on the part of State Governments has discouraged hoarding and speculative tendencies of foodgrains. The minimum procurement prices of food-grains have also been fixed. In April 1963 to check the rapid increase in price of sugar the Government fixed the price of sugar and introduced its rationing. But it was discontinued since Aug. 1978.

(2) **Distribution of Essential Commodities.** To keep the prices under control, the Govt. has built up buffer stocks of food-grains and these stocks are disposed of at controlled price through fair-price shops opened for this purpose. The Government has set up a large number of fair-price shops all over the country. State Trading is another successful measure of the Government to control the rise in prices of food-grains and other essential goods. The Government has set up the Food Corporation of India for this purpose.

(3) **Increase in Imports of Food-grains.** To keep the prices of food-grains under control the Government increased the imports of food-grains. Further, strong drive for international procurement of food-grains has also been undertaken to improve supplies in food-grains.

(4) **Increase in Production.** The most effective method to control rise in prices is to increase the production of commodities both agricultural and industrial. For increasing the production of all essential commodities the Government has made an all out effort in three Plans. To stimulate production
measures like import of fertilisers, setti
plants, irrigational and power projects,
of important varieties of seeds, provision of cheap credit facilities to farmers, etc. have been taken. In the field of industrial production the efforts of the Government are in no way less commendable. A number of capital and essential consumers' good industries have been established during years of planning and the most of them are working satisfactorily. Consequently, the supply of industrial goods has increased and the pressure of excessive demand of these goods has been reduced.

(5) **Govt. two-fold Measures.** As a supplement of efforts at raising productions the Government has also been taking two types of steps of augment supplies. One relates to the various measures designed to curb the hoarding or holding of stocks to the minimum required for business purposes. The second is concerned with the importing of vital goods like food-grains and edible oils. These

are meant to augment the domestically available supplies. These two measures are, however, temporary and do not provide a durable solution of the problem of prices. The psychology to hold or hoard disappears as soon as production becomes enough. Imports too will have to go, if production goes up. The real solution lies in stepping up production.

(6) **Management of demand.** The government has been from time taking various steps largely to curb excessive demand. The devices used for this purpose have been many and varied. These include, for example, efforts to reduce non-development Government expenditure, attempts at limiting the amount of deficit spending, restrictions on the quantity and use of bank credit for speculating it in terms of the genuine needs, limiting growth of population, etc. While these measures have been undertaken at one time or the other in the past, a concerted effort at curbing the demand at several points *simultaneously* began only recently. [illegible] the expansion of bank [illegible] held by smugglers, tax-[illegible]bs on additional incomes [illegible] were directed to reduce purchasing power of the people.

Adverse effects have been excellently summed up as under :

Inflation has destroyed both the internal and external economic balance of the country. Internally it has eroded the purchasing power of money, distorted the allocation of resources, brought about undesirable shifts in income distribution and generally acted as disincentive strength of Indian industry in foreign markets, widened the payments gap and reduced the exchange value that the rupee can command.

All said and done, the Government policy to control prices and stabilise them has been conceived correctly. The major components of the policy, namely, management of demand, increase in supplies and [illegible]-conceived [illegible] objective. [illegible]vements of goods and in enforcing monetary and fiscal discipline etc., as also expanding public distribution system should go a long way in lowering the prices and stabilising them at an economic level.

"The First World War affected each and every sector of Indian economy in each and every way." —*Malhotra*

29

EFEECTS OF FIRST WORLD WAR

Q. 74. Examine briefly the effects of World War I on Indian Economy. (*Bom. 1972*)

Ans. An analysis of the impact of the World War I on Indian economy shows how Clapham's statement—"Great wars create new epochs in the economic history of nations"—is correct.

It was the War which proved an eye-opener in bringing about a more vivid realisation of the danger of dependence on foreign supplies for even the necessaries of life. When the War started in 1914 the Government and the country were not prepared to face the difficulties caused by the stoppage of imports from foreign lands. This shows pitiable dependence on foreign countries. It also brought home to the people and the Government the importance of a self-sufficient India. It revealed that India with her rich resources was not able to meet even her absolute industrial necessaries. The requirement for a new Industrial policy was realised. This led to the establishment of the Industrial Commission in 1916. As an emergency measure the Indian Munitions Board was set up in 1917 to develop Indian resources, with special reference to the requirement created by the War. The Board discovered that a good many goods which were imported could be easily made in India. Special attention was paid to the development of what are called the key industries.' The successful working of the Munitions Board showed without doubt the production capabilities of India. All these factors led to a radical change in the industrial policy of India and the policy of *Laissez-faire* so far followed was given up.

During the War the prices increased largely. The increase in the price of commodities during the War gave a great stimulus to production.

Plantation Industries. The steep increase in the price of tea led to intensive output of tea Both output and exports rose. On the whole the years 1914-19 were good for the industry and the prices especially during 1914-17 were much higher than the pre-War level. The War led to the rapid expansion of rubber plantation industry. Exports of rubber increased from 2·6 mn. lbs. in 1913 to

14 mn. lbs. in 1920-21. The indigo industry expanded during the War. The War shunt off the German dyes from the Allied markets and this led to a revival of the demand for Indian indigo.

Coal Industries. Thought at the beginning of the War, because of industrial dislocation and other causes, there was a temporary decline in the demand for coal, as the War progressed the demand revived from the railways and war-stimulated industries There was increased output, though the industry faced various difficulties and its progress was checked till 1917.

Cotton Industry. It saw a great prosperity during the War especially from 1916-22. The decline in the imports along with the large increase in demand especially due to Government. War orders led to an increase in prices. At home and in foreign markets the Indian cotton industry was favoured, production greatly increased and the existing mills worked at top speed and earned large profits. But because of the difficulty of getting machinery and plant few mills were constructed during this period.

Jute Industry. It received a powerful stimulus from the War. The industry during the war period worked to large extent to Government orders. The price went high and the industry made high profits.

Iron and Steel Industry. The War also created a very favourable condition for the growth of the iron and steel industry The decline in the import of iron and steel together with the Government demand induced the industry to increase output much.

Agriculture. During the War there was an increase in the prices of farm goods. But the favourable harvest of 1915-17 together with Government controls kept the prices of food-grains from increasing while the greater rise in the prices of manufactures meant that the terms of trade went against agriculture. This meant that the farmers did not benefit much from the War.

Wages and Industrial Labour. During the War period wages increased. But the increase in wages did not keep up with the increase in prices. Hence the workers found that their real wages were falling. This led to strikes [illegible] the War, the industrial unrest an[illegible] the major contributory causes [illegible]

Railways. The War period experienced to break-down of the railway system. The heavy War demand on railway service and the consequent over-working and depreciation together with the Government financial difficulties and difficulty of getting stores and material for replacement and renewals resulted in the deterioration of railway equipment.

Foreign Trade. The War gave a temporary set-back to foreign trade But as the War progressed exports revived and there was a huge favourable balance of trade. The War also led to the import

trade to move away from Britain, but the export trade with Britain increased.

Currency and Exchange. The War witnessed the break-down of the Gold Exchange Standard in India. The increase in the price of silver together with the ever-increasing demand for rupees made it impossible for the Government to go on minting rupees at 1 s. 4d. After various efforts by the Government the rupee was left to find its own level and by the end of the War the exchange stood at 1 s. 10d. and in Dec. 1919 at 2 s. 4d.

Banking. The war gave an impetus to the establishment of more banks in India and the deposit liability increased. By 1921 the deposit reached Rs. 800 mn.

"The Great Depression affected adversely people all over the worl
but India was perhaps its greatest victim." —*Malhotr*

30

GREAT DEPRESSION

Q. 75. Describe briefly the nature and peculiarities of the economic depression in India during the late twenties and early thirties of present century. Evaluate the measures taken by Government to relieve agricultural distress. *(Pb. 1976, Bom. 1974)*

Ans. The crisis in the Wall Street in America started a decline in prices which ended in an unprecedented slump all the world over. Our India was badly hit by the great slump in the prices of her staple exports. During the period 1929 to 1934, the prices of rice, raw jute, raw cotton and oil seeds all fell by more than 50% while those of cotton manufacturers, sugar and metals fall by less than 30%. This changed the terms of trade to our disadvantage and reduced our visible surplus. The great fall in exports than in imports affected our balance of trade so that we had to export gold to pay for our invisible imports. The net export of gold was greatest in 1932.

The slump affected all goods exported and imported, but among export yarn and corn had been much affected. Among imports the fall has been greatest for cotton goods, iron and steel goods and sugar. These are all goods on which protective duties were levied. The Depression together with extension of protective tariffs undoubtedly made our country more self-sufficing. The Great Depression also brought changes in the direction of our foreign trade. U.K.'s share in our imports increased as also the share of the Inter-Imperial trade. Trade with Java and America fell.

The Depression also affected our *internal trade* and *transport*. The value of the crops declined from Rs. 10,180 mn. in 1929 to Rs. 5,340 mn. in 1934. Industrial out-put on the other hand increased and the prices of manufactured goods declided less than those of farm goods. Railway traffic was also badly hit. By 1930-31 earnings did not cover the agreed contribution to the Central Govt. In each subsequent year there had been deficit.

Agriculture was affected very badly. The purchasing power of the farmers declined very much. Much had passed from the hands of the

farmers in those of the money lenders According to the Central Banking Enquiry Committee the rural indebtedness was Rs. 8,810 mn. in 1929 when the main crops were valued at Rs. 10, 180 mn. With the decline in the value of the crops by about 52%, the burden of rural indebtedness doubled. This made the position of the farmers intolerable.

The position had been very bad in Bengal, because of the dependence upon jute cultivation and export and to the fact that Depression in the jute industry had been added to farm depression. In 1930-31, the total value of the Bengal jute crop was only about 20% of what it was in 1926. The result was 'financial paralysis' met by voluntary crop restriction and an appeal for Government help.

Wheat and sugar were the only crops put open to competition from imports and hence the only ones which could be helped by protective tariffs. An import duty was levied on wheat in 1931. Indian market was also protected against import of Java sugar. In 1932, sugar was transferred to the protected schedule.

To other crops Government help was given by other methods. On the recommendation of the Royal Commission on Indian Agriculture, the Imperial Council of Agricultural Research was set-up, which had achieved good results with regard to wheat, sugar and cotton. Efforts were also made to improve farm output and marketing, relieve rural indebtedness and revivify rural life. In 1932 help for provincial schemes of rural improvement was given by a non-recurring budgetary grant of Rs. 0·925 mn., an additional Rs. 1·5 mn., being alloted to promote the co-operative movement.

In a number of provinces and Indian States, schemes of rural improvement were undertaken.

Regarding Indian industries, in spite of the fall in prices of industrial products since 1929, the suffered no serious set-back Output increased. This was mainly due to the protection given to the industries. had been felt mainly in the jute indus- markets and in the Bombay city section

When the Depression became acute, the Govt. in 1930 transferred the cotton goods to the protective schedule and duties were levied on imports. The proteclion for the Iron and Steel Industry was continued. Coal industry suffered much from the Depression. Demand from jute mills, the railways and for bunker Coal fell.

It seemed from the available data that farmers suffered much from the depression than industrial workmen. Actually industrial workers who had retained employment were able to maintain and even improve their living standard.

Practically all farmers suffered but it was different in different sections. The more commercialised agricultural areas suffered more than those who were relatively self-sufficient.

The Govt. tried to remedy the situation by giving remission of land revenues in some provinces. Various provinces passed measures to scale down the rural indebtedness of the farmers. Some provinces passed Acts to limit and control the activities of the money-lenders. Besides these indirect and half-hearted measures, there was no direct effort made by Govt. in giving relief to peasants during Depression.

Q. 74. What were the effects of World Depression of Thirties on Indian Economy? *(Punjab M.A. 1976, Hons. 1975)*

Ans. The World-wide Depression affected severely people all the world over, but India was perhaps its greatest victim. It was natural for farming country to undergo such a heavy strain. India was perhaps the only example of a country doing nothing to relieve the distress of the masses. While the Bombay Index declined from 100 to 61·7 in 1933, the decline in Britain was to 75 only or 13·3 points less. Similarly the Bombay Index was only at 64·5 in 1936 but U.S.A. Index was high at 95·2. The year of 1933 was the worst year of depression in our country. Wheat was quoted at Rs. 1/11/-per md. at Layallpur and cotton was Rs. 4/8/- per md. These unremunerative prices caused great suffering to the farmers in particular and the country as a whole in general.

Effects on Farmers. They were the worst suffers as prices fell heavily but land revenue, wate [illegible] Costs did not declined much while pr [illegible] An examination of agricultural [illegible] in Punjab showed a deficit ecor [illegible] the Depression years. The [illegible] which [illegible] tide over the dep [illegible] 3 and Rs. 16,000 to Rs 9,000 mn [illegible] In the Punjab, mn. in 2938. an inquiry into gold sales in the villages showed that 13% of the gold was sold for land revenue payment only. There was huge unemployment in rural areas. "Mortgage debt also rose and there was in evidence a strong tendency for small fish to be eaten up by the bigger first Small land-holders came to be expropriated."

Centre did nothing to relieve the farmers but some provinces tried to help whereas others made no attempt, e.g., in Bombay nothing was attempted till 1937; while C.P. adopted a more comprehensive police. Some of the important steps taken by Govt. to help the peasants during this period may be noted.

(1) Remission of land revenue in certain provinces like U.P.

(2) Adjustment and Scaling Down of Debts Acts were passed in C.P., Madras, Bombay, U.P., Punjab, etc.

(3) Manufacturers. Th[illegible] [illegible]urers did not lose as much as [illegible] declined by 60 points in 1933 as [illegible] 39 points and industrial index [illegible] heavily as a result of heavy unemployment among workers. But the manufacturers suffered in

another way. There was a serious competition in cotton-piece goods but less serious in steel, cement, paper and sugar. Protection had to be granted to several industries to enable them to face foreign competition.

(4) Labourers lost in two ways. The nominal wages touched its lowest ebb. The wages of an unskilled male adult workers were Rs. 15/- p m., while that of women labourers were Rs. 10/-. The skilled workman earned between Rs. 30-40 per month. The second way how the labour suffered was the huge unemployment. The jobbers got huge commissions for getting employment to them.

(5) Foreign Trade. Exports indicated a heavy fall both in volume and value. Imports also declined but their decline was not so much as in exports, owing to the fact that the prices of farm goods and raw materials which formed the bulk of our exports declined to a much greater extent than the prices of manufacturers which formed the bulk of our imports. The balance of trade turned heavily against our country and there began heavy exports of gold from India during this period to make up the gap. "The slump in the export trade was at its worst in 1932-33 when the value of the exports dropped to Rs. 136 crores, and the visible balance of trade in merchandise was only about Rs. 3 crores, the smallest figure on record."

(6) Internal Trade. The depression in world prices and trade naturally reacted on our internal trade .....It has been estimated that the value of the principal crops fell from Rs. 10,180 mn in 1929 to Rs. 5,340 mn. in 1033. Industrial production on the other hand, increased and the prices of manufactures fell less than those of agricultural products. Nevertheless, as India is predominantly an agricultural country and as the commercial classes were hard hit, it was obvious that the decline in purchasing power was very great.

(7) Transport. Along with commerce and industry, the railways were hit hard by the Great Depression. They failed to make any contribution that had been settled under the Separation Convention to the General Budget and overdues went on accumulating until they reached the high figure of 365 mn. in 1939-40. To meet the interest on capital the railways had to borrow from their Depreciation Fund and the total amount borrowed during the period was Rs. 313·4 mn. T[illegible] wheat exports were the causes to w[illegible]

(8) Banking The advent of Great Depression in 1929 inevitably brought a large number of bank failures in India in its train. Between 1931-36, not less than 238 banks collapsed. But most of them were small fry and only 5 had a capital of Rs. 1 lakh and over.

(9) Currency and Exchange. The Depression made our Cu[illegible] definitely weak as it severely affected exports. The Governmen[illegible] Treasury Bills and contracted currency by selling sterling and these sales by transfers from Gold Standard Reserve to th[illegible]

balances. The measures taken by Govt. to maintain *1s. 6d.* ratio created stringency in the money market and accentuated decline in prices. Another far-reaching effect on India was stimulus given to gold exports. In 1931-32 gold worth Rs. 579 8 mn. (7·73 mn. oz.) was exported and in 1932-33 worth Rs. 655·2 mn. (8·35 mn. oz)

(10) Protection. Since 1931 the main tariff changes had been connected with enhanced Japanese competition in cotton products and other trades and with the extension of Imperial Preference by Ottawa Agreement Cotton industry was granted protection in 1930. Since 1931 protection was extended to silver thread and wire, wood pulp, silk, mixed textile goods, salt, coal, tubes and wagons.

(11) Financial Situation. From 1923-24, up to and including 1929 30, the budgetary position was satisfactory but after that catastrophic decline in prices and trade, involved a great fall in both tax and non-tax revenue The latter declined from Rs. 305 mn. in 1923-24 to only Rs. 52 5 mn. in 1934-35. 1930-33 and 1931-32 there was budget deficits of Rs. 115·8 and 117·5 mn. respectively.

"The American Civil War and the opening of Suez Canal revolutionised the very economy of India."

31

ECONOMIC EFFECTS OF AMERICAN CIVIL WAR AND OPENING OF SUEZ CANAL

Q. 77. Explain clearly the effects of the American Civil War (1861-65) and the opening of the Suez Canal (1869) on the economic situation in India.

Ans. Effects of the American Civil War on Indian Economy.

The 5 years' period occupied by the American Civil War when the Southern States of the United States of American were busy in a bloody war against their brothers in the Northern States, proved a blessing in disguise for India. The American Civil War meant economic prosperity for India, especially for the Indian cotton growers. The U.S.A. had become a great cotton grower. By 1830, she had become the principal supplier of raw cotton to U.K. So long as better quality cotton could be had from U.S.A. there was no demand for the Indian cotton, usually of short staple and inferior quality cotton, in English markets.

The existence of American Civil War meant that no longer could the American cotton be available to Lancashire cotton textile mills. As a result of the Civil War, the Southern ports of the U S.A. were closed to British merchants and consequently the imports of raw cotton stopped to the great embarrassment of the mill owners. Lancashire suffered an acute cotton famine. Since the hungry machines had to be fed, a rigorous search for alternative cotton source was made in other parts of the world, chiefly India. The American Civil War created an unprecedented demand for Indian cotton and a boom in the cotton trade of India could be witnessed. Prices increased higher and the Govt. appointed a cotton commissioner for Bombay and Central Provinces. The Govt. also accelerated the development of road and railway to facilitate the new cotton trade. Growing of cotton became a highly profitable proposition to work at. The price of cotton had risen [illegible], and

the growing of cotton became suddenly very paying. This enormous rise in the price of Indian cotton is given in the figures given below :

Price of cotton in annas per lb.

Year	1859	1860	1861	1862	1863	1864	1865	1866
Price	2·7	2·7	4·2	6·4	10·5	11·5	7·1	6·2

It will be noticed that the price of cotton had risen more than 300% during the course of four years. "The trade in raw cotton also naturally rose to extraordinary heights on account of this rise in price and the quantity available for export to the United Kingdom was more than doubled within these four years ....The rise in price combined with the increased quantity made the value of these exports formidable, and for a few years, after 1864, their value formed more than half of the value of the total exports from India."

Thus the American Civil War created virtually a revolution in the sphere of cotton production and trade in this country. A vivid account of this revolution has been given by Mr. Rivett Carnac, the Cotton Commissioner of the C.P. and Brar thus. After describing the manifold difficulties in the way of cultivator before 1860, he goes on to say, "Suddenly as if by magic, these obstacles were effectively and simultaneously removed, and the cotton trade and as it was carried on in 1864 in Central India is hardly to be recognised by the side of the business as it is done in our markets today. Whilst the railway slowly but surely, was working into the heart of the country, the position of the cultivator was undergoing a great and decided change. The operations of the Land Revenue Settlement relieved him of all anxiety regarding his land tenure......and finally, the American Civil War, by raising the price of cotton and pouring into the ryot's hand what appeared to him untold wealth enabled all those who were not utterly reckless and extravagant to free themselves from the meshes of the money lender's hand."

This boom in cotton prices benefited all the cotton-growing tracts of India. It was estimated that the ryots of Ballary district alone made 1·1 million sterling by the sale of cotton at this period. In the Bombay Presidency the effects were equally phenomenal, for in spite of a severe deficiency of rainfall and the resulting failure of the crops, the ryots were able to make more money than they were accustomed to earn during the favourable seasons in normal times.

Still more important effect of this revolution was the awakening of the farmer to the consciousness that he was raising a crop that would not merely cater to the local demand, but also supply the needs of a

foreign market. In other words, the economic isolation of India was broken and she bid fair to become a world market for cotton.

"However, this sudden prosperity could not endure long, and dark clouds already began to gather in commercial horizon. The easy money which poured so quickly into the hands of farmers as if by magic, ebbed away in an equally similar manner. Money easily got was easily spent. The ryots wasted this money in the most extravagast manner and once again ran into heavy debts. The false hope for a continuation of prosperity made them reckless and on the bursting of the bubble when the new market disappeared like a dream after the conclusion of the American Civil War, they were sadly disillusioned. Many of them found themselves, more than before, entangled into the meshes of the money lender.

Effects of the Opening of Suez Canal on Indian Economy. "The construction of the Suez Canal, one of the greatest feats of world engineering skill of the nineteenth century was completed in 1869 when it opened the gateways of commerce to the world. Both East and West were brought nearer to each other from the standpoint of the international trade. So long the British ships had been the chief carriers of the world trade. They had to take per force a circuitous route round Africa and spent nearly 3 to 4 months before reaching India. Thus in these unfavourable circumstances the trade between India and the West was of a limited character. Besides, the high cost of transport acted adversely on development of trade and commerce between India and the nations of the West." The opening up of the Suez canal abridged the distance and caused a saving of nearly 4,000 miles because as against a distance of 10,667 miles round the Cape route, the new route through the Suez canal was only 6475 miles. The old route hampered trade in several ways. It kept freights at a height which almost prevented commerce in articles that were also produced in countries nearer to the United Kingdom and limiting traffic to products of which India practically possessed a monopoly. It also gave weevile ample time to damage cargoes of wheat nd seed. This serious difficulty was removed by the opening of the Suez Canal in 1869, the voyage to Bombay by the new route being reduced from a hundred days or more to about twenty-five days in ordinary cases and three weeks when faster vessels were employed. The reduction was of the first importance to Indian trade. To this and to the contemporaneous linking of the ports with the interior in every direction must be ascribed the remarkable development of commerce since 1870, for without these two facilities none of other measures of reform which came into operation about the same time could have had any substantial effect. The trading community was thus enabled to supply European manufactures at a cost within the means of the native consumers, and to send Indian products to Europe in good condition and offer them at prices which permitted competition with other countries more favourably situated with reference to the consuming markets, but not possessing the cheaper labour of which India still enjoyed an abundant supply. The result became mani-

test during the following decade 1870-80, in a most striking development of trade."[1]

The effects of this new change in the international waterways sphere on the volume of commerce were felt immediately. The British had so far enjoyed the monopoly of Indian commerce but now consequent upon the opening of this new international waterway India became accessible to other nation's ships also and a great fillip was given to the foreign trade in India, especially trade between India and the Mediterranean ports. "The decline of the British share of Indian trade became inevitable as soon as the Suez Canal was opened and continental traders were able to undertake the direct conveyance of merchandise to and from India. It is clear that no trade in Marseilles, Bordeaux, Genoa or Venice, would send his goods by the circuitious route through England, when he was able to send them direct on reasonable terms of freight. This transfer of o part of the carrying trade, which had increased though not very much, with rise in commercial importance of continental nations, is the primary cause of the decline of the proportion of the trade of India conducted with England, which has attracted some attention. It must be added that, as India's trade with other countries, such as parts of Asia, Africa, Australia and the United States extendts, the decline in the proportion of the British share of Indian trade must necessarily become more marked."[2]

Secondly, now that Suez Canal had been opened, traffic voyage to India became a question of days instead of months. Freight charges had also been very much reduced and more goods of all kinds began to cross the high seas existing between the continents.

Thirdly, "the export trade of India was particularly stimulated since several thousand tons of wheat were conveyed to Europe. Thus, for instance, in 1874-75 only a million cwt. were exported whereas in 1884-85 it was more than doubled; and before 1894-95 it was trebled It was largely due to the fact that wheat got spoiled by heat when it was conveyed through the tropics because going through the Cape route meant crossing the Equator twice. Thus the canal not only proved a boon in so far as it saved time for the exports of wheat, oil, and seed, etc., but it also enabled them to be delivered in good condition. Whenever speed was important on account of the perishability of the transported commodity, the trade received a great stimulus indeed.

Fourthly, the saving of time meant also the saving of interest on capital invested in the export business. Hence there was a great increase, now, in tonnage of vessels engaged in the foreign trade of India.

Fifthly, there was also a greater safety in the voyage in so far as the opening of the canal meant an avoidance of monsoons and storms which were the common scourage of the Cape voyage.

1. Imperial Gazetter of India, Vol. III. pp. 62.
2. Imperial Gazetteer of India, Vol. III.

"The beneficial effects of the opening of the Suez Canal were by no means restricted to foreign trade and commerce only. The effects were also felt in industries. The abbreviation of the distance and the cheping of the frieight rates made the imports of machinery, railway plant. iron and steel goods, etc. easy. This proved a boon to India since she could obtain modern equipment and capital goods on cheaper terms than before and use them for building her new industries which were slowly rising upon the graves of the old ones."

"However, the opening of the Suez Canal was not altogether an unmixed blessing to the economy of this country The opening of the Suez Canal while provided a great fillip to the trade and commerce of India and to many industries, proved hostile to the development of coal industry, since cheap foreign coal in the country increased in supplies confronting the coal industry with the ugly situation of foreigner cut-throat competition."

"Indian Government is not only a spectator in the economic field, but is a taxer, spender, borrower and lender, and thereby acts as a Welfare State."

32

FINANCIAL RELATIONS

Q. 78. Trace the financial relations between the Centre and Provinces between 1870 and 1951. *(Bom. 1976)*

Ans. The First War of Indpendence of 1857 caused heavy economic strain on the Government This necessitated the strict financial control on the whole Empire. Consequently in 1858 when India was transferred to the Crown, a regular financial administration was established for the first time. Provincial Governments which carried on the whole administration had neither financial power nor financial responsibility. The smallest details of Provincial expenditure were controlled by the Indian Government. The whole of the revenues were paid to the account of the Central Government and the Provincial Governments got only fixed contributions to cover their expenses. This led to constant bickering between the Central and Provincial Governments and unnecessary interference by the Centre with the Provincial administration. This entaild extravagence, rigidity and friction in the Provincial finance and uncertainty in the Centre finance.

Provincial Settlement. Though the drawbacks of the system were felt and proposals were made, nothing could be done till 1870, when Lord Mayo introduced his scheme of decentralisation. According to the Resolution published by the Government in Dec. 1870, Jails, Registration, Police, Medical Services, Printing, Roads, Education, Miscellaneous Public Improvements and Ci[illegible] transferred to the Provincial Governments and for the [illegible] the Provincial Governments were give[illegible] Imperial revenue and the departmental receipts on account of these services transferred to the Provinces. This new arrangement started working in 1871.

The system had many defects. Out of the Central funds, "doles" were granted to the Provinces according to the discretion of the Centre. It could not provide the Provinces with adequate revenue. This system did not provide any incentive for economy in the Provinces.

In 1877, Lord Lytton introduced more reforms. The grants from the Centre were made on a quinquennial instead of a yearly basis and instead of a fixed grant from the Central Government, the Provinces were given the receipts from certain defined sources called the 'Assigned Revenues'. The final balance between Provincial revenue and expenditure was affected by an "adjustment" assignment whereby any deviation from what had been estimated, whether surplus or deficit, was equally shared between the Provincial and Imperial Governments.

In 1882 Lord Rippon followed a new principle under which (i) the settlements were made liable to revision every 5 years, *(ii) the practice* of giving fixed sum grants to cover the deficit of the Provinces was done away with, and (iii) the allocation of the revenue was determined under which certain heads like opium, customs, commercial undertaking, salts, etc. were made wholly Imperial; certain other heads like civil departments, provincial works and rates were wholly made provincial; and the rest like Excise, Stamps, Assessed taxes, Forests, Registration, etc. were divided in proportion for the most part equal between the Imperial and Provincial Governments. Settlements on the basis were made in 1887, 1892 and 1897 with some minor changes. This system had various drawbacks. The practice of revising the settlements every 5 years brought uncertainty and destroyed the continuity of Provincial finance. Extravagance was encouraged during the closing years of settlement in order to avoid a depletion of their sources at the next settlement. Consequently Lord Curzon in 1905 made the settlements quasi-permanent. In 1914 Lord Harding made the settlements permanent. Under the Settlements of 1912 in case of widespread famine, a distressed Province may have to be assisted from the Imperial funds, in case of War or financial crisis, the Provinces may be called upon to help the Indian Government. In the absence of such special emergencies the settlements were to be fixed, rigid and permanent. This gave more independence and responsibility to the Provinces. But the Provinces had no borrowing powers and had no right to levy new taxes without the sanction of the Central Government. Thus till the reforms of 1919 the financial power was in the hands of the Central Government and decentralisation had meant the decentralisation of administration rather than power.

Financial Relations under the Reforms of 1919. The Reforms of 1919 introduced radical changes in the fiscal relations between the Centre and the Provinces. The provinces were given financial autonomy. The divided heads of re[illegible] eliminated and revenues were se[illegible] to get ir[illegible] heads [illegible]

Provinces were to get [illegible] was equal to 3 pies in [illegible] assessed over and above the income assessed in 1920-21. [illegible] arrangements meant a heavy loss to the Central Government for which

they were to be compensated by Contribution from Provinces. These contributions were to be abolished as soon as possible.

Meston Award. To consider these and allied questions Lord *Meston's Committee* was set up in *1920*. The recommendations made by the Committee came to be called the Meston Award. The important recommendations were : (i) contributions were to be made by the *Provinces* according to their spending power ; (ii) the *Provinces* were to make a fixed contribution in the beginning, later on they were to be standardised (iii) general stamps were to be transferred to the *Provinces* ; and *(iv) a share in the rise* of the *income tax was to be given* to the Provinces.

The Provincial contributions did not please everybody and caused much discontent. Industrial Provinces like Bombay and Bengal resented the loss of income tax revenue while Agricultural Provinces like Punjab, Madras, and the U.P. considered the initial contribution fixed for them to be excessive. But the greatest drawback was that the Resources given to Provinces were neither elastic nor adequate to meet the increasing developmental functions assigned to them.

Financial Relations under the Government of India Act, 1935. According to the Act India was to be a federation. The revenues were allocated as follows : (a) *the Federal list which consisted of corporation* tax, import duties, railway contributions, coinage profits and Reserve Bank profits ; (b) the Provincial list which consisted of Agricultural income tax, land *revenue, exercise duty* on alcohol, drugs etc , and taxes on luxuries and (c) partly federal and partly provincial like income tax other than on agricultural income.

[illegible] the

Provinces *in order to remove* the chronic deficits in certain Provinces like Bihar, Bengal, N.W.F.P., Assam and Orissa He suggested the amount of annual cash subventions to be given to the Provinces. (b) Fixed the percentage of income tax to be assigned to the Provinces at 50% and the percentage share of each Province in this divisible amount. (c) Recommended the increase from 50% to $62\frac{1}{2}$% in the share of the jute export duty. (d) In case of Bihar, Assam, Bengal, Orissa and the N.W.F.P. the entire net debt was cancelled and in the case of Central Provinces all pre-1936 deficits plus approximately Rs. 20 mn. of the pre-1921 debt were cancelled.

The recommendations of the Otto Niemeyer were almost fully accepted by the Government and the Provincial autonomy started working in *1939*.

Deshmukh Award. Under the New Constitution, there was no significant change in the division of sources of revenue as compared to the arrangement which *existed under the Government of India Act of 1935.* However, in the case of distribution of income tax revenue, adhoc percentages were fixed which slightly altered the Niemeyer Award.

In 1948, an expert committee under the chairmanship of Mr. N. R. Sarkar was asked to examine the problem of revenues between the Centre and the States. The Sarkar Committee's recommendation was that the Provincial share of the income tax should be raised to 60 from 50% of the Niemeyer Award. The Government did not accept this recommendation

In 1949, Mr Chintamani Deshmukh was invited by the Government of India to determine afresh the shares of various Provinces. Mr. Deshmukh confined himself to a reallocation of the income tax revenue shares, released from the Provinces which went over to Pakistan. He also introduced grants-in-aid in lieu of a share in the export duty on jute, to be paid to jute-growing Provinces.

According to the Deshmukh Award, the percentage shares of West Bengal and Punjab were reduced from what they received under the Niemeyer Award, while those of Bombay, Madras, U. P., Bihar, Madhya Pradesh, Orissa, and Assam were raised West Bengal's share was reduced from 20% (under the Niemeyer Award) to 12% while that of Bombay was raised from 20% to 21%. Grants-in-aid given to the jute-growing Provinces were fixed as follows : West Bengal Rs. 105 lakhs, Assam Rs. 40 lakhs, Bihar Rs. 35 lakhs, and Orissa Rs. 5 lakhs.

FINANCIAL INTEGRATION OF STATES

Another significant post-Independence development in respect of financial relations between the Centre and various units has been the financial integration of the former Princely States. Therefore, in Oct. 1948, the Indian State Finance Enquiry Committee was appointed with Shri V. T. Krishnamachari as its Chairman. The Committee recommended that the Union Government should exercise its functions in the Princely States by means of its own administrative agencies as in the Provinces. The Princely States and the Provinces being equal partners, should be placed on an equal footing with regard to finances.

First Finance Commission (1951). The first Finance Commission was appointed in Nov. 1951 by the President of India under Article 280 (1) of the new Constitution with Sh K. L. Neogy as the chairman and four other members. The Commission submitted its report in Dec. 1952.

33

DRAIN THEORY

Q. 79. Make a careful analysis of the Drain Theory put forward by the early Indian Economists and discuss how far this theory provides an adequate explanation of Indian poverty in the latter half of the 19th century. *(G.N.D.U. 1971 ; Punjab M.A. 1959)*

Ans. The factor which dislocated Indian economy and converted it into a 'country of hewers of wood and drawers of water' was the pitiless drain of wealth from India which started after the battle of Plassey in 1757 and continued until the British left India on 15th August, 1947. Drain Theory represents 'Home Charges' which again represent expenditure incurred in Sterling in Britain by the Secretary of State for India. These charges were paid to 'their home' by the English officials But from the tax-payers, point of view these charges were paid out of their home. Thus [illegible]
sums of money as home charges. Tl [illegible]
interest on all kinds of debt ; (2) [illegible]
tion works ; (3) charges on account [illegible]
(4) India office expenses, and g [illegible]
expenses ; (6) payment for stores purchases.

The amount of home charges was £3 million when Queen Victoria ascended the British throne. By the end of the country it had increased to about £6 million and by 1931-32 it stood at about £30 million. Home charges were paid on the following subjects :—

1. [illegible] the East India Company's Stock. From [illegible] was paid under this head. In 1834 [illegible] mercial body. An unjust burden was put on India in shape of these dividends. In years after 1874 a loan of £4 5 mn. to redeem the stock was added to debt of India, Interest charges paid up to 1874 and aftewards on this loan of £4·5 mn. were unjust and drain on the sources.

2. Interest on Debt. Excepting some loans due to famines and productive debt, the remaining interest charges were due to ; (1) the

Wars of the Co.; (2) the cost of Mutiny (£40 mn.); (3) the Afghan wars and other frontier operations; (4) burdens shouldered by India in World War I.

3. **Interest on Railway and Irrigation Revenue Accounts.** India made payment for railway construction and Irrigation facilities given by the British Government.

4. **Military and Marine.** Employment of Indians in military should have reduced the expense of pensions and allowances sent to U.K. English soldiers were trained on Indian expenses. India had to shoulder burden of Indian troops who were employed in other countries of the Britons.

5. **Stores and Capital Expenditure.** More than 50% of expenditure on stores of military could be reduced if these could be bought in India. It was never done and we paid for maintaining these stores.

6 **Civil.** The cost of maintaining law and order and the establishment of India office at London, but strange enough that the Indian were not permitted to take the high posts in the administration.

Some writers opine that this payment involved India in an annual drain of capital from India to England for which no adequate return was got. India's capital resources were depleted thereby and thus charges had kept India in a condition of acute proverty. But according to Mr. Vera Anstey's defence of drain, "The home charges were not the drain in the real sense and it assisted the development of India to some extent." The remarks that interest on productive debts brought more revenue than sufficed to meet the interest charges and hence no net drain. Railways and irrigational works brought immense benefit to the country. Capital was scarce in India and loans for these purposes could not be obtained in India at a cheaper rate than in London. The interest payable in England on account of unproductive debt services along with payments for pensions, etc. and expenses of the India Office came out of India's political and administrative connections with England.

In return India obtained benefits of naval defence and peace and security. If she were to provide herself for separate Indian Civil Services, Indian Educational Service, police, public works, she would have had to incur much more.

But it is one-sided picture of the whole story. It must, however, be remembered that interest on all kinds of debts included also dead weight debt, and the army and navy expenses included military expenses beyond the frontiers of the country. Further as Dutt says, "It is neither a just nor true Imperial policy to charge the Indian tax-payer every shilling spent in London for Great Britain's Indian Empire. The Empire benefits Great Britain as well as India, and it is a mean counting house practice to debit India with the cost of establishments maintained in London to supervise Indi[illegible] can prosper if nearly one half of its re[illegible] country by the ruling power." It was [illegible] to pursue her Imperial policies and contributed to her greatness as

the leading nation of the world. But at what cost for India? As R.C. Dutt says, "It is unfortunately a fact which no well-informed official will ignore that in many ways, the sources of national wealth in India have been narrowed under the British rule."

Right from the days of East India Co. India has been used by the British as useful hunting ground for furthering the economic interest of U.K. The tariff policy was so framed as to develop the trade of Britain and not of India. The industrial development of India has been intentionally held back so that India might supply the raw-material to English industries and serve as a market for British manufactures. Exploitation was carried on in all economic spheres England cared a fig for economic progress of India.

Romesh Dutt observes, 'The British nation has spent millions of their own money in acquiring dominions in other parts of the world, but in India an empire had been acquired. Wars had been waged, administration had been carried on at the cost of the Indian people. The British nation had not contributed even a sterling." The administration of India passed on from the East India Co. to the Crown, yet the Indians were paying dividend on the stock of East India Co. in the form of interest on debt for a long time. In 1857 at the time of transfer of power, the East India Co. was to obtain interest on its debt for 20 years. It was also to receive annual dividend on its capital stocks upto 874. The surplus of the year which amounted to £ 32 million net 46 years proceeding Queen Victoria's accession, went to U.K. to pay off the dividends to shareholders of the East India Co. It could have been spent on irrigation or other development projects in India. As if this amount was insufficient debts were raised in India to pay these. The taxpayers had to pay for the interest. Hence says Romesh Dutt, "Thus this is the saddest episode in the sad financial history of India."

India, no doubt benefited from the construction of railways and irrigation works but these contributions could have been cheaper without the guarantee system of railways which resulted in great financial strain. Expenditure was lavish, Indian capital remained idle and it was never approached to whatever small quantity; it could reduce the drain after all.

Honourabe John Thore was of the opinion that while the Indians shouldered the burden of the taxation, they were excluded from every honour, dignity or office which the lowest Englishmen could be persuaded to accept." Sir John Sullivan remarked, "Indians were excluded from an offices of emolument and from that position in the administration of the country, civil and military which they occupied under their own princes."

Duplication of posts should have been avoided in India Office and office of Commissioner for India. India alone was compelled to pay for diplomatic services to Empire in Prussia and China.

When Queen Victoria came to the throne the charges rose too much and such a big economic drain cannot be shouldered by any nation. These charges converted India to a land of famines. This drain

was arrested only after transfer of power into our own hands. We may conclude that although India received some benefits from the services rendered by the Britishers, India had to pay much by way of home charges and her wealth was exploited by the British. Hence the drainage of wealth cannot be denied.

with the Home Department of the Indian Government, furlough and retirement pay to members of the Indian Military and Civil Services when at 'home', charges of all descriptions paid in England connected with British troops serving in India, and a portion of the cost of transporting British troops to and from India. According to Wingate, if this cruel burden had been removed and if India had been allowed to spend the amount in India itself, the revenue of the country would have attained an elasticity beyond all expectations. Our appeals went unheard and uncared for. When Queen Victoria ascended the throne, the home charges amounted to £3 millions. By the time she passed away, the home charges had increased to £16 millions. Such a big economic drain cannot be endured by any country, however wealthy she might be. No wonder, India was reduced to "a land of famines more frequent, more widespread, and more fatal, than any known before in the history of India, or of the world". The crippling effect of this economic drain of the national resources of India continued for a long time. It was only after the transfer of power into Indian hands that the drain was checked.

Q. 80. "Colonial exploitation of the British was responsible for colossal drain of wealth to England, the growing poverty of the masses and stagnation and backwardness of Indian industries." Comment.

Ans. British rule lasted approximately 200 years—1757 to 1947. As mentioned already, the Britishers never came to India with the idea of settling down or to identify themselves with the local population as the previous Muslim invaders had done. The British considered India as a colony to be used and exploited for the benefit of England. The wealth of India was systematically drained off to England; India was bled white to make England rich. India's traditional industries were destroyed to make India serve as a market for English manufactures. She became a standing example of colonial exploitation of the worst type.

According to Dadabhai Naroji, the British rule was directly responsible for systematic drain of wealth from India. During the rule of East India Company, the officials of the company indulged in outright plunder of the country by exacting gifts and tributes from Indian kings, princes and nobles. The company also forced the Indian people to pay for all its wars such as the Mysore and Maratha wars, the Afghan and Burmese wars, and so on. Besides, the savings of the

English officials and others as well as the pensions of retired English officials were regularly remitted to England.

Even after the direct assumption of power in 1858 by the British Crown, the plunder of India's wealth and its transfer to England continued. For example, India was asked to bear the expenditure of the Department of the Secretary of State for India (a member of the British Cabinet who looked after India before 1947) Besides, India had to pay the pension of retired English civilian and military personnel who had returned to England, the interest on the loans raised by Indian for the construction of railways and irrigation works, and also pay for the purchase of stores etc. All these expenditures which India had to meet year after year were collectively called "Home Charges". These charges amounted as much as half of the Government's annual budget. Either India had to buy gold from the market and export the same to London or it has to export goods much in excess of what it was importing—the excess of exports being to pay for the Home Charges. This was what constituted the economic drain. or the transfer of India's wealth to England. When the British set up industries in India, the repatriation of huge profits and remittance of interest constituted another important source of drain of wealth from India. Economic drain was an important cause for the poverty of the Indian masses and for stagnation and backwardness of the Indian economy.

Other Causes of Poverty.

Apart from economic drain, poverty of the masses was also due to systematic and ruthless destruction of handicrafts and other manufactures in India by the British without providing any alternative sources of emplyment for the unemployed artisans. Destruction of Indian handicrafts was made possible through the adoption of free trade in India which permitted free flow of foreign manufactures into India. The artisans joined the ranks of landless labourers. At the same time, heavy rents charged by the landlords, the heavy land revenue charged by the Govt. and the exorbitant interest charged by the moneylenders—all these forced the small peasants to part with their land to moneylenders and landlords and join the rank of landless labourers. The *introduction of the new land system* had much to do with the exploitation and growing poverty of the peasantry. When the *commercialisation of agriculture* resulted in the shifting of land from food crops to cash crops, frequency and intensity of famines increased causing untold human suffering and misery and loss of life. There was no limit to poverty and misery in the country.

INDIA'S POVERTY—BRITISH VIEW

While nationalist economists totally blamed the Britishers for the poverty of the masses, English economists attempted to find causes of poverty elsewhere. In their view, the basic causes of poverty in India were :

(*a*) vagaries of Nature—droughts and failures of monsoons were responsible for famines ;

(*b*) thriftlessness and extravagance—the general tendency to spend recklessly on social occasions even by borrowing at heavy rate of interest ;

(*c*) the rapacious money-lender in urban and rural areas who literally fleeced his victims ;

(*d*) social backwardness, ignorance and superstition of the masses ; and

(*e*) rapid growth of population, resulting in over-population.

All these are, of course, important factors contributing to poverty but the basic causes were the general exploitation and economic drain perpetrated by the Britishers on the Indian people.

"By means of statistics of natonal income, we can chart the mo ments of a country from depression to prosperity, its steady long-term r of economic growth and development and finally its material standard living in comparison with other nations."

—*Samuels*

34

NATIONAL AND PER CAPITA INCOME

Q. 81. Review the various estimates of National Income of India that have been made from time to time and account for big variations.

Or

Trace the increase in the per capita income of India since 1951. What remedies would you suggest for a more rapid rate of growth ?

(Kuru. 1970 ; Lucknow 1978)

Or

Comment on the growth of National and per capita income in India since the commencement of Planning. What factors in your opinion were chiefly responsible for the failure of National Income to grow more rapidly during this period ? *(Kuru 1974 ; Delhi 1978)*

Or

Analyse the trends in the National Income of India during the period of Planning and account for the variations in the rate of its growth

(Kuru 1978 ; Bombay 1975)

Or

Briefly describe the controversy that ranged around the estimate of per capita income in India during the last quarter of the 19th century.

(Pb. M. A. 1970)

Ans (1) **Dada Bhai Naroji.** The first serious step to measure the national income of India was undertaken by Dr Dada Bhai Naroji based no official figures relating to the years 1867-70. He put out per capita income at Rs. 20. He arrived at the figures £277 mn. as value of *gross farm produce*. From this he deducted 6% for seeds The balance left was £260 mn. Next £17 mn. was taken as value of salt, opium, coal and profits of commerce. The value of manufactured goods was put down at £15 mn. An equal amount was allowed for annual produce of stock, milk, meat, fish etc. and £30 mn. were further added

for any contingency. All these items added upon £340 mn. and taking population as 170 mn. the per capita income for (British) India was put as 40 s. or Rs. 20.

(2) **Lord Cromer and Barbour.** The next estimate was made in 1882 by Lord Cromer and Barbour and their results were as given below :—

Farm income	Rs. 3500 mn.	Rs. 5250 mn. (total)
Non-Farm Income	,, 1750 ,,	

Per Capita Income was Rs. 27 *i.e.* $\frac{\text{Rs. 5250 mn.}}{\text{19,45,49,000 people}}$

(3) **Digby.** Next comes Digby's estimate which proceeded on the assumption that the Government land revenue has a definite relation to the out-turn and the percentage between them was taken at a varying figure as arrived at by R. C. Dutt and used by him in his open letters to Lord Curzon.

Farm Income	Rs. 2850 mn.	Rs. 4280 mn. (total)
Non-Farm Income	,, 1430 ,,	

So according to him Per Capita Income for the year 1898-99 in India was Rs. 17-8-5 *i.e.* $\frac{\text{Rs. 4280 mn.}}{\text{24,50,00,000 people}}$

(4) **Lord Curzon.** Lord Curzon in reply estimated per capita income on the basis of figures collected for the Famine Commission of 1898, as Rs. 30 for the year 1900.

(5) **Digby.** Digby again returned the charge and re-examined the question in order to show that Lord Curzon's estimate was too much optimistic. As regards farm income, he adopted same land revenue criterion but in the case of non-farm income, instead of assuming 20% of farm income, he examined a large number of items and concluded that total income of the country was £2,590 mn. ÷ 256 mn. people, per capita income as Rs. 17-4-0 for 1901.

(6) **Wadia and Joshi.** P.A Wadia and G.N. Joshi worked out an estimate of national income of India with reference to year 1913-14. They estimated total net valuation as Rs. 12,10,27,97,010 and deduced therefrom home charges as Rs. 1,23,00,00,000 and found Rs. 10872797010 as net national income, by dividing it by total population 24,51,89,718 per capita income came to be Rs. 44-5-6 for the year 1913-14.

(7) **Shah and Khambatta.** K.T. Shah and K.J Khambatta estimated per capita income Rs. 36 for 1900-14; Rs. 58-8-0 for 1914-22 and Rs. 71 for the year 1921-22.

(8) **Findlay Shirras.** Findly Shirras estimated per capita income Rs. 107 for the year 1921 and Rs. 116 for 1922.

(9) **Dr. V K. R. V. Rao** Dr. Rao estimated (British) India's national income in 1931-32 as between 16,000 mn. rupees and 18,000 mn.,

rupees or a per capita income of Rs. 65 with a margin of error of + or − 6%. Dr. Rao combined both income and output methods with great success. He had used Government estimates of agricultural produce, tabulated figures of mineral industrial and forest produce, available of data on milk and milk products and income tax statistics as well as figures income of junior Government servants and of those industrial workmen whose wages were published regularly. He also supplemented these by *ad-hoc* inquiries in other directions.

(10) The Eastern Economist put per capita income at Rs. 214 for 1949-50 and Ministry of Commerce at Rs. 272 for 1947-48.

The various estimates of per capita income in British India before the partition are as below :—

Sr. No.	Name of Investigater	Year for which estimate is made	Income in Rs. As. P.
1.	Dadabhai Naoroji ...	1867-70	20 0 0
2.	Lord Cromer and Barbour...	1882	27 0 0
3.	Digby ..	1898-99	17 8 5
4.	Lord Curzon ...	1900	30 0 0
5.	Digby ...	1901	18 8 11
6.	F.G. Atkinson ...	1875	30 8 0
	,, ,, ...	1895	39 8 0
7.	Wadia and Joshi ...	1913-14	44 5 0
8.	Shah and Khambatta ...	1900-14 (Pre-War)	36 0 0
9.	,, ,, ...	(War and post-War)	38 0 0
10.	Findlay Shirras ...	1921	107 0 0
11.	,, ,, ...	1922	116 0 0
12.	Simon Commission Report...	1929	116 0 0
13.	Dr. V K.R.V Rao ...	1925-29	76 0 0
14.	,, ,, ,, ...	1931-32	51 0 0 165 0 0 65 0 0
15.	Sir James Grigg ...	1937-38	56 0 0
16.	"Student" in Commerce ...	1938-39	66 0 0
17.	,, ,, ,, ...	1942-43	124 0 0

It is clear that there are big variations in the above estimates of income.

(1) One reason is the change in prices. For instance, Rs. 45 in 1919-14 would be equal to no less then Rs. 80 in 1921-22, if an allowance is made for the rise in prices.

(2) Besides, the area covered by different estimates is not always

the same. In some estimates the whole of India has been included, while in others the States have been excluded.

(3) Another important fact to note is the difference of treatment by different investigators due to their personal bias. One finds that investigators with a nationalist bent of mind usually arrive at lower figures as compared with officials; the view-point of the former is that British rule brought no prosperity to India while the latter think differently.

(4) Earlier investigations were thus inspired by political prejudices and were either over-estimates or under-estimates

(5) In addition, the different estimates did not always include the same items.

(6) The basis of calculation was almost always different.

(7) Nor were the statistics wholly correct. Often they were patchy and in some cases lacking in important aspects. Prof. A.L. Bowley and Mr. D H. Robertson, who were invited by the Government to advise them in the matter of collecting statistics and about a census of producttion, pointed out, "Statistics in India are unco-ordinated, though in some branches careful work is being done and determined efforts made to improve the accuracy and scope of information: in others they are unnecessarily diffused, gravely inexact, incomplete or misleading, while in many important fields general information is almost completely absent. The situation cries out for overhaul under the control of a well-qualified satistician." Agricultural price statistics are diffused, birth and death-rates are incomplete, and there is no general information about wages. It may be mentioned that later estimates are more scientific and Dr. Rao's valuation is perhaps the most reliable. He selected the year 1931-32 for his estimates. The 'income' and 'inventory' methods have been judicially mixed and supplemented by *ad-hoc* inquires.

Growth of National Income over Plans.

Planning in India commenced in the year 1950-51 when systematic and regular economic development programmes came to be undertaken in a series of Plans. The main objective of Planning in India has been to raise the productivity of the various sectors of the Indian economy so that they make a large contribution to the national output and income and enable the people to raise their levels of living. With this end in view resources of the country have been mobilised through appropriate fiscal and monetary policies and these resources have been diverted to the development of the various sectors to the national economy according to a scheme of pre-determined priorities.

As a result of increasing investment outlays according to the development of programmes formulated for each successive Plan, the out-put of the various sectors increased. In order to keep a watch on the growth of the economy, every year an estimate of the national income is considered as an index of the rate of the growth of the economy.

Let us see briefly how the national income in India has increased in these successive Plans.

First Plan Period. The First Five-year Plan was quite a success. During the First Five-year Plan period, the total national income of India increased from Rs. 95,300 mn. nearly in 1950-51 to Rs. 99,800 mn. nearly in 1953-56 The national income increased by 18·4% whereas the targest was only 11%. The per capita income increased by 8 2%.

Almost all the major sectors attained a sizeable expansion and contributed to the growth of the national income. The farm output rose by 22% and the industrial output increased by 39%. There were corrresponding increases in the output of commerce, transport and communications and of other services. A series of favourable monsoons helped farm output to expand more than it was targeted for. There was no foreign exchange difficulty and no resource mobilisation problem. The Plan went through smoothly. The stability of price level lent ability to economic development. But the rate of growth was modest 3·5% yearly.

Second Plan Period. The Second 5-year Plan was not so lucky as First one It was much bigger too. In fact, planned development started with the Second Plan, the First being only preparatory. The Second Plan aimed at much faster rate of growth *i e.*, 5% per year or 25% over the Plan period. Actually, the national income over the plan period rose by 21·4% or 4·3% per year as against 18 4% in the First Plan period or 3·5% per annum. The total national income rose from Rs. 99,800 mn. in 1955-56 to Rs. 1,41,400 mn. in 1960-61.

During the Second 5-year Plan period, farm output rose by 20% and industrial output by 41%. The share of agriculture and allied pursuits in total national income declined from 48% in 1955-56 to 46% in 1960-61 and that of mining and manufactures increased from 9% to 11%. The per capita income increased by 8·6% as compared with 8·2% in the First Plan.

Third Plan Period. The period of the Third 5-year Plan represented the first stage of a decade or more of intensive development leading to a self-reliant and a self-generating economy It called for a maximum possible rate of investment. But like Second 5-year Plan, the Third 5-year Plan too ran into difficulties arising out of adverse weather, shortage of finance and of foreign exchange and transport bottlenecks. As a consequence, there have been shortfalls in several sectors of production.

Accordingly, the growth in the national income was very slow during the first 3 years. The growth rate was 2·6% in 1961 62, 1·9% in 1962-63, 5% in 1963-64. In 1964-65, however, the growth rate was 7·7%. For the first 4 years the rate of growth works out at 4·3% per annum. The rise of 7 7% in the national income during 1964-65 was the result of an increase of 8 9% in agriculture and allied occupations and of 7% in the rest of the sectors taken together.

The performance of 1965-66 was not very satisfactory, the national income increasing only by 4% *i.e.*, a decline of 3·7% over the preceding

year. The per capita income too fell by 5·9% in constrast to an increase of 5·3% in 1964-65. The shortfall in 1965-66 was due to an unprecedented drought resulting in sharp setback to farm output.

For the entire Third 5-year Plan period, the national income increased by 20% as against its target of 30% (compared to a rise of 18% in the First 5-year Plan and 21 4% in Second 5-year Plan.)

Over the Three Plans Period. Taking the entire period of the three Plans (1950-51 to 1964-65), the national income at constant prices increased by 70·1%. The per capita income (at constant upto 9 5% prices) which had increased by 8·2% during the First Plan, moved upto 9·5% in the Second Plan. During the first 4 years of the Third Plan, it increased by 8·1%.

According to the revised series the national income at 1960-61 prices increased by 20% in the first 4 years of the Third Plan but registered a fall of 5 7% in the last year. The per capita real income in 1965-66 was the same as in 1960-61, since the rise in the national income was almost completely neutralised by 2·5% increase in population.

Over Annual Plans Period. In 1966-67 the national income increased by 1·1% owing to severe drought. However, the record harvest of 1967-68, making a significant increase in agricultural production, was instrumental in raising national income by 9%. The national income in 1968-69 increased by 2 4% and per capita income by 0·2%.

Fourth Plan It was estimated [illegible]
the Fourth 5-year Plan would be [illegible]
the population was expected to gro[illegible]
period, the increase in per capita [illegible]
During 1969-70 national income [illegible]
national income increased by 4·7% showing a fall of 0·6% over previous year. In 1971-72 real national income went up by 1·2% and in 1972-73 it declined by 0·3%. During 4th Plan national income increased by 2·7% against target of 5·5% for the 4th Plan period.

Fifth Plan. During 5th Plan national income registered an annual increase of 4% against the target of 5·7% per annum.

Sixth Plan During 1980-81 national income increased by 19% at current prices but by 8·7% at constant prices. During 1981-82 it increased by 19% at current prices but 7·3% at constant prices

Conclusion. From this brief review of growth of the nationl income [illegible] ow and irregular over the [illegible] expected. Weather is of [illegible] but the blame must also [illegible] plementation of the Plans. We must step up investment to absorb at least 25% of the additional income generated in the process of development. But prices must be held in check, if the growth is to be steady.

"The Second Great War had a favourable effect on all the sectors of Indian economy excepting agriculture." —*Jather & Berry*

35

SECOND WORLD WAR AND INDIAN ECONOMY

Q. 82. Explain the impact of Second World War on the Indian Economy. *(Pb. M. A. 1977, G.N.D.U. 1972 ; Kurukshetra 1976)*

Ans. The Second World War affected Indian economy in the following way :—

(1) Second World War & Industry—

We may first of all examine the various factors which to some extent favoured industrial development during the 1939-45 War. In the first place, the drastic curtailment and restrictions on imports created conditions of quasi-monopoly for many of the Indian industries in the home market. Secondly, the increased demand from the Commonwealth for war-materials, and India's own defence requirements called for greatly increased industrial activity and exploitation of country's industrial potentialities. The role of India as the leader of the allied Eastern Group of Commonwealth countries and provider of the allied arimes in the Near East was indicated by the session of the Eastern Group Conference at New Delhi in October 1940, the visit of the Roger Mission to this country and the location of the Eastern Group Council in India. Similar sigificance attached to the visit to India in April 1942 of the American Techanical Mission under the Cease Land [illegible] The modernisation of the Indian army as recommended by the [illegible] incentive to the industrial [illegible] were borne out by striking facts and figures. Overseas war orders exceeding Rs. 160 crores were placed in India during the first two years of the war. The Department of Supply, corresponding to some extent to the Munitions Board set up during the previous war, alone executed orders worth over Rs. 56 and Rs. 76 crores in the first and second year of the War respectively These orders covered a wide range of manufactured goods such as cotton textiles, jute, iron and steel, engineering stores, leather etc. A big scheme of expansion of war factories in addition to the increase production in the ordinance factories was put into operation

by the Government of India, which fostered industry, encouraging substitutes and adjusting specification, to increased output. It was estimated that as many as 20,000 articles required by a modern army thus came to be manufactured in the country. India was eventually producing 90 per cent of her war requirements and sending abroad large quantities of arms, ammunition, shells, rifles, sandbags, saddles, electric cables, road-rolling plant, electric fans, greatcoats, etc.

(2) **Second World War and Foreign Trade**

Position during World War II (1939-45). Changes brought about by War were as follows :

(*i*) India's foreign commerce was hurdled during this period by bottle-necks in transport, dislocation created by Partition and a change in demand in foreign countries. The production of civilian goods was adversely affected during the War and while, in the beginning, India had a surplus stock of many products that could be exported, as the War went on there was a scarcity of many exportable products This retarted Indian foreign trade. India's imports, exports and total merchandise trade declined from Rs. 1,520 mn Rs. 1,630 mn. and 3150 mn. respectively in 1938-39 to Rs. 1,100 mn. Rs. 1,880 mn. and Rs. 2,980 mn. respectively in 1942-43. There was a steady increase in India's foreign trade after 1943-44 although imports rose more quickly than exports due partly to the urgent requirement of import of machinery, raw materials and food-stuffs and partly to the difficulty of sparing commodities for exports and response from foreign countries. India's imports, exports and total merchandise trade rose to Rs. 3,990 mn., Rs. 3950 mn and Rs 7,940 mn. respectively in 1947-48 and to a beak level of Rs. 5,180 mn., Rs. 4,160 mn. and Rs. 9,340 mn. respectively in 1948-49.

(*ii*) There was some alteration in the direction of India's foreign trade during this period In 1942-43 the Empire countries had 76·1% and foreign countries 32·9% share in India's exports as against 52·2% and 47 6% respectively in 1938-39. But gradually the old pattern appeared again and in 1947-48 the Empire countries had 51 3% and foreign countries 48·7% share in India's exports. In 1938-39, the first 3 places in India's export trade were occupied by England, Japan and United States and in 1947-48 by England, United States and Australia There was marked change in the direction of India's imports and in 1945-46 foreign countries supplied 56·9% and Empire countries 43·1% of India's total imports as against the corresponding figures of 41·9% and 58·1% respectively in 1938-39. In this way, the Empire countries lost the first position in our imports and gave it to foreign countries and in site of some change, this trend persisted and in 1947-48 foreign countries supplied 53·9% and Empire countries 46·1% of India's total imports. In 1938-39 England, Burma and Japan occupied the first 3 positions in India's import trade but in 1947-48 the first 3 positions were occupied by the United States, England and Egypt. The U.S A. came to occupy the first position in 1947-48 due to heavy imports of food from those countries and in the subsequent period

England again re-asserted itself and now occupied the first place in import trade in India.

(*iii*) There was a major change in the composition of India's foreign trade and in 1947-48 manufactures accounted for 48·8%, raw-materials for 21·1% and food, drinks and tobacco for 19·1% of Indian total exports as against 30·0%, 45 1%, and 23·3% respectively in 1938-39. This indicates that India exported more manufactures and less raw materials than in the past. There was a great change in the composition of Indian import trade during the War period and in 1942-43 manufactures, raw-materials, food, drinks and tobacco accounted for 44·5%, 47·3% and 7·3% respectively in 1938-39. This indicates that imports of raw-materials rose and of manufactures and food, drinks and tobacco fell. But, with the restoration of normal conditions, the old pattern re-asserted itself.

(*iv*) India's balance of trade became more favourable than ever. While exports rose, imports fell since exporting countries were engaged in War and there were serious shipping difficulties. The favourable balance of trade was 80 mn., 840 mn., and 920 mn. of rupees in the year 1941-42, 1942-43 and 1943-44 respectively. Hence India repartriated sterling debt with the help of favourable balance of trade. Not only this, India was able to build a sterling balance of Rs. 17,330 mn.

(3) Second World War and Trade Union Movement.

During Second World War and After. During the Second World War differences appeared on the question of War effort. The Trade Union Congress adopted an attitude of *neutrality*. *M. N. Roy* and Jamnadass Mehta set up another organisation known as the Trade Union Federation in 1941, for the full support of Indian labour for war purposes. In 1937, the labour sub-committee of the Gandhi Seva Sangh started an organisation of labour on Gandhian principles. In 1947, under Gulzarilal Nanda's [illegible] Central Organisation of trade unions based on Gandhian [illegible] Trade Union Congress (I.N.T.U.C [illegible] II, the rising cost of living compelled the labourers to join into unions. The number of unions and their membership increased a lot. All the political parties started taking great interest in the labour movement. As a result of these there was a remarkable progress In 1946-47 there were 1729 registered trade unions of which 998 were submitting returns. The membership of the unions submitting returns was 13,31,962. Inspite of all these developments even the financial position of the organisation continued to be poor.

(4) World War II and the Co-operative Movement.

The movement was still having a tough fight with the reactionary forces for its progress that the global war broke out in 1939. It proved a blessing in disguise for the onward march of the movement in the country. The rise in the prices of the agricultural produce that followed *the outbreak* of the war ceased a difficult situation for the movement. The agriculturists being as a whole better off, they were in a position [illegible] their past debts to the co-operative societies. This resulted in

a slight improvement in the working of the co-operative movement. War gave a fillip to growth of the movement in another direction too. It promoted the growth of consumer's co-operative stores and marketing societies as a safeguard against the profiteering and black-marketing that were rampant during the war. A number of small industries, like woolen and cotton hand-loom weaving assisted by the Government grants organised themselves on co-operative lines. By 1941 the number of co operative societies had risen to 1,24,000. In 1943-44 the number shot up to 155,000, while in 1945-46 it crossed the 1,59,000, mark. Then total membership also recorded an increase from 5·5 lakh in 1941 to 8·4 lakhs in 1935.

(5) **The World War II and Railways.** With the breaking out of War and the resultant increase in commerce and industry, railways started marching upon a most prosperous period of their career. The budget for 1940-41 disclosed a surplus of Rs. 82·9 mn. but actually turned out to be 160 mn. in the final accounts. This surplus was 200 mn. in 1941·42, 290 mn. in 1942-43, 360 mn. in 1943-44 and 500 mn. in 1944-45. During the War period surplus was Rs. 2,000 mn. General revenues received were Rs. 1,580 mn. By 1943 railways had not paid off their debt to Depreciation Fund only but also discharged their obligation to the Central Govt. On the whole, Indian Railways faced the strain of War well and proved themselves to be better equipped for such emergencies than they were in 1941.

(6) **Second World War and Currency and Exchange System.** Effects of World War II were far-reaching on Indian currency than on any other there of economic activity.

(*i*) **Expansion of Currency and the consequent Inflation.** D. K. Malhotra writes, "Among the various War-time developments in the sphere of India currency, the enormous expansion of currency overshadows all others by its spectacular character, its wide sweep and direct impact on the daily life of the common man." The amount of notes in actual circulation which stood at Rs. 1,821·3 mn. on Sept. 1, 1939, increased to Rs. 1,1598·5 mn. on Oct 19, 1945, (more than 600% increase). The phenomental expansion of currency naturally led to an unprecedented rise in prices. The Economic Adviser's Index indicates that by Jan., 1945, it had increased to 250 3 (base year being 1931=100). As a matter of fact War and post-War inflation had very serious reprecussions on the economic condition in the country.

(*ii*) **Exchange Control** Exchange control in India was introduced during War under Defence of India Rule and Reserve Bank was empowered to administer it so as to conserve and mobilize the country's foreign exchange resources and also to prevent flight of capital from India. All transactions in foreign exchange were to be conducted through the Reserve Bank or through authorised dealers appointed by it. Holdings of balances in $ and other foreign currencies were acquired as also the proceeds of foreign exchange from exports to hard currency area. These were contributed to the Empire Dollar Pool which was mostly used by Britain for obtaining supplies from America, This

exchange control with minor change was extended after War and is a very important feature for Indian Exchange System today.

(*iii*) **Accumulation of Sterling Balance.** India accumulated huge sterling balances during War period. At the beginning of war, they amounted to Rs. 640 mn. but at the end of War, they stood at Rs. 17,330 mn. They were accumulated because of the following reasons :—

(*a*) The War expenditure of Indian Government increased enormously. Part of it was agreed to be borne by British Government. The British Government paid this in form of sterling securities.

(*b*) During the War, India had a heavy favourable balance of trade, which was paid this in terms of securities.

(*c*) The $ and other non-sterling assets were forcefully acquired which were held by Indians. Payment for these assets as also payment against American military expenditure in India were made in terms of sterling securities.

(*d*) The Indian balance in the Empire Dollar Pool was also credited in India through sterling balances. Against the sterling securities received, Reserve Bank issued and paid rupee notes equivalents.

(*e*) Considerable stores and materials were bought by British Government and the Allied Nations during War. Other military expenditure was also incurred. For these Reserve Bank supplied rupees by printing notes against the receipt of equal amount of sterling Balances in London.

(*vi*) **Increase in the Powers of R.B.I.**

The War also brought much increase in the powers of the Reserve Bank. The statutory restrictions on note-issue were relaxed, an Exchange Control Department was set up. The Banking Companies (Inspection) Ordinance, 1956 gave the Reserve Bank power of regulating branch-banking activities of commercial banks.

(7) **Second World War and Price Control.** Under the Defence of India Ordinance and the Defence of India Rules drawn, price control was introduced on necessaries and essential imports in short supply. Limits were fixed to the rise in prices above the prices ruling on Sept. 1, 1939. The black market which developed with the price controlled led to huge concealment of fortunes and widespred tax-evasion.

"Planning is an order of the day."

36

HISTORY OF ECONOMIC PLANNING IN INDIA

Q. 83. Give a brief history of Economic Planning in India.

Ans. The National Planning Committee The political leaders of India woke up to this fact and the Indian National Congress discussed the matter at length in its Karachi Session as early as 1931. The Congress leaders were impressed by the Russian endeavour. The realisation was clear that a push is required from the State to do away with poverty through a planned process.

The Congress took up the cause from two points of view—*firstly*, to make a constructive programme for building the country ; and *secondly*, as a challenge to the British Government.

The genesis of the National Planning Committee is traceable to a conference of the Ministers of Industries held in Delhi in Oct. 1938, under the chairmanship of the then Congress President, Netaji Subhas Chandra Bose. It was resolved, that a planning committee should be appointed and in [illegible] of this resolution, under the auspices [illegible] National Planning Committee was [illegible] the Chairman and Prof. R. T. Shah as its General Secretary. The committee enlisted 18 more members.

The committee met for the first time on Dec. 17, 1938, and at its second sessional meeting, held in June 1939, 29 subcommittees were appointed to make a detailed study of India's economic condition in various aspects. Till Aug. 1940, a few more sessions were held at intervals. By this time the Second World Was was declared and the working of the committee was suspended for 5 years. Next, the committee met in Sept. 1945 which was succeeded by 3 more sessions The final meeting was held in *Free India* in the Council House New Delhi, under the presidentship of Sh. J.L. Nehru.

A note circulated for the guidance of the members of the National Planning Committee and the sub-committees, stressed the character and objectives of a Plan for economic development of India.

The main objective was described as,

"The doubling of the present standard of living amongst the people of India within a prescribed time limit, say ten years."

Following the Soviet example, first priority advised was, production of key-industries. The idea of a "mixed-economy" also originated from this early stage. The committee acknowledged that planned economy presumes public-ownership of industries, but hesitated to go the whole length in view of the "vested interests", well-established in the field of economy. The private sector co-operating should form an integral part of the National Plan was the idea maintained by these early planners.

The drawing of a plan without practical field investigations is nothing but an 'academic exercise' hence the N.P.C. drafted a questionnaire in 1939 and circulated it to various universities, chambers of commerce, trade-unions, and industrial-firms. In the meanwhile the chairman addressed a number of letters to the various Provincial Governments, asking for co-operation in its working. Directives were issued to all the sub-committittees to gather full information and data relating to all economic branches, to enquire into potentialities of productive resources, scope of development in different sectors and the total national requirements in respective sections to help in sketching out an all comprehensive plan.

At the time when the preliminary working of the N. P. C. was suspended in 1940, it received only 6 final and 7 interim reports; discussed these in a special session and adopted in the form of tentative resolutions. When it met again in 1945, after the War, the rest of the reports were called for and published in the form of monographs.

But the reports together do not present any plan and there is no reason to call it a plan. It threw no light on the character of future economy of the country. Inconsistent conclusions, haphazard remarks, muddled up the whole thing. Still the N P.C. carries a great importance as a historical monument. The idea of planned economy was incorporated for the first time by this body of persons. The N.P.C. should be held at high respect as it hit at the right point by emphasising the need for planning—as a solution to the backward nature of our economy. The ameteaur attempt laid the foundation of planned-economy in India.

The Bombay Plan. Earlier than the Reports of the N. P. C. were published, in Jan 1944, when the War was still going on, 8 industrialists of Bombay published a Plan of Economic Development of India, which has since been populary known as the 'Bombay Plan'. As no other plan appeared in black and white before, it created a sensation. The publication of the plan is a landmark in the speculative history of economic planning in India.

It was an attempt at producing a comprehensive scheme to raise the standard of living in India. The target being fixed at doubling the per capita income and tripling the total national income in a period of 15 years. The idea behind the Bombay Plan was establishing a 'balanced economy' through industrialisation. Thus they estimated, agricultural income should expand by 130% industrial earning by 500% and income

from the tertiary sector by 200% to bring a proper balance in the economy.

The planning period assumed was 1945 to 1960. During these years they aimed at increasing the National Income from Rs. 2,200 crores to Rs. 6,600 crores. In terms of per capita income, that would raise the figure from Rs. 65/-(1931 national income calculation by V.K.R.V. Rao)-to Rs. 135/-. The contribution of agriculture industry and services after the completion of plan would change to 40, 35 & 20% respectively.

This was the period when post-War planning for India was engaging serious attention in all quarters. The Bombay Plan stood as a subject of hot discussion for a long time, appreciations and criticism showering from different quarters, and there is no doubt that it was not able to satisfy those thinking seriously in terms of planning.

Economic planning was gaining popularity in every quarter and was engaging sincere attention of the Government as well as the public. Though the Government plans required time to appear, yet, this did not remain the only non-official programme. A rival party pointed out the lack of co-ordination in the propased economic structure of the Bombay Plan and presented an alternative scheme. This was the People's Plan.

The People's Plan. The People's Plan for Economic Development in India was drawn by the Post-War Reconstruction Committee of the Indian Federation of Labour. Earlier the committee had submitted a paper on "Labour and Post-War Reconstruction" to the Pacific Relations Conference. In its annual meeting at Bombay in 1943, a special co- [illegible] up a Plan for India and the [illegible] months after the publication of [illegible] was also a hypothetical scheme based on the assumption of an independent National Government—

The Peoples' Plan was drafted by late M. N. Roy who intended to raise per capita income by four times.

It was more ambitious than the Bombay Plan. It was calculated that in order to have in average four times rise in the per capita income a net improvement by over 300% for the agriculturists and 200% for the urban citizens was required.

It discarded the idea of 'balanced' economy' appreciated by the previous planners and criticised the Bombay Plan as one-sided industrialisation policy and emphasised that India should progress on agricultural basis. It had a pronounced bias towards agriculture and declared that it must remain the mainstay of the people for the following reasons :— *Firstly*, the deficiency in food-supply was a serious handicap to overcome and self-sufficiency should be gained in that regard *Secondly*, agriculture as the supplier of raw-materials to the industries should be developed otherwise that would lead to unbalance between progressed demand and supply. *Thirdly*, export surplus—to acquire foreign exchange through export crops was another necessity. That means as the sources of food supply, raw-materials to the industries and main export items, unless a four times increase in this regard economic progress would be retarded. For its improvement suggested a radical change by wholesale nationali-

zation and abolition of usury. Nationalisation with compensation by 40 years self-liquidating bonds, at the rate of Rs. 4/- per acre bearing 3 p.c. annual interest. It consisted a detailed programme of agricultural reforms prepared on the basis of the report of the Floud Commission of 1938.

The Socialist structure of the People's Plan resembled too much the Soviet planning system. But, as the 'first object' of the plan was to relieve the distress of the general masses it differed in fixing the priority. The method of financing was fundamentally different from the Bombay Plan and *of a unique type—"Self-financing" process introduced* with elaborate calculation tables.

The 'Self-financing' method of the People's Plan was an original idea no doubt. But over estimation of capital income ratio from *agriculture ; the fallacy of double counting ; wrong assumption of yield* from different groups of industries ; and, the contradiction between higher standard of living and a too steep percentage of saving—if all these mistakes are admitted.

None of the plans dealt with the problem of capital formation. They were dominated by the idea of 'Self-help'. Most probably they had no idea of the foundation on which an economic structure may be built. Provided no resources budget, supplied no data for calculation, and from this point of view were of little help in plan-making.

The National Planning Commission. Through its resolution for a planned economy and declaration of a few policies the Government resumed grave responsibilities. But practically nothing much came out of all these for some time. The various public authorities had been apethatic creating the impression that they preferred to delay and obstruct than to promote industrialisation. Even the steps taken after announcing their policies had not been very well conceived. Priorities were not established as a result more projects were launched than could be financed. Resources survey was absent. Often the projects were *more ambitions than the technical capacity of the resources. Colossal* projects, born of enthusiasm, were in contemplation without any comprehension of the economic capacity.

There was lack of co-ordination between the working of the Central and Provincial departments. Besides, the industrial stagnation, severe *food-problem and other basic economic difficulties called for a more* clear-cut programme from the Government. The Advisory Planning Board also had made a recommendation to this effect, suggestion creation of a central body for the purpose.

The Congress *Working Committee in its New Delhi Session in* 1949, focussed attention on the necessity of having such a body, to assess the needs and requirements of the country, and the potential resources available and to draw an economic plan for the immediate future. Following it, the National Planning Commission was appointed

The Colombo Plan. At Sydney in May 1950, it was decided that a co-operative attempt should be made by all the Commonwealth Countries

In South and South-East Asia to tackle their centuries' old poverty by drawing 6-year Plan for economic development. The representatives of the Governments attending the Sept. session in London intended primarily to induce the American State Department to sponsor something like a 'Marshall Aid Plan' for South-East Asian countries. The conference was based on the recommendation of Gordongray for replacing the Marshall Aid Plan expiring by 1951, by a Point Four Programme to assist the underdeveloped areas of Asia, Far East and Middle-East.

The Plan covered only fundamental projects designed to improve the standard of living, providing minimum social services and sufficient capital equipments. The objectives were:

"(a) To undertake certain basic public development works such as irrigation and rural electrification in order to increase agricultural production.

(b) [illegible]

(c) To develop and improve transport facilities.

(d) To promote the full use of existing industrial equipment and capacity and to extend the production of iron and steel.

(e) To encourage industries in the villages in order to provide work for the unemployed and underemployed rural population.

The Plan for India (popularly known as the Colombo Plan) was hastily drawn by the Planning Commission at a very short notice and submitted to the Commonwealth Consultative Committee. As the first attempt of the Planning Commission it carries importance in the history of planning.

The First-Five-Year Plan (1951-52 to 1955-66) was the first programme ever adopted in India to bring about an alround development of the whole economy. The central objective of the Plan was to, "raise the standard of living of the people and to open out to them opportunities for richer and more varied life". With an over all expenditure of about Rs 2,000 crores in the public sector the plan laid emphasis on [illegible] transport with a view to create a base [illegible] industrial advance in future. It also [illegible] about social changes in institutional [illegible] an ended in March 1956. Compared to the conditions prevailing at the time of the commencement of the Plan, the economic situation by the end of the Plan period showed perceptible signs of improvement.